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KOREA

STAFF APPRAISAL REPORT

THE SMALL AND MEDIUM INDUSTRY BANK

(SMIB IV)

April 24, 1981

Projects Department  
East Asia and Pacific Regional Office

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CURRENCY EQUIVALENTS  
As of December 31, 1980

\$1.00	=	Won 650
\$1 million	=	W 650 million
Won 1	=	\$0.0015
Won 1 million	=	\$1,538
Won 1 billion	=	\$1.54 million

ABBREVIATIONS

ADB	-	Asian Development Bank
BOK	-	Bank of Korea
CNB	-	Citizens National Bank
ERR	-	Economic Rate of Return
FRR	-	Financial Rate of Return
GNP	-	Gross National Product
KCGF	-	Korea Credit Guarantee Fund
KDB	-	Korea Development Bank
KFSB	-	Korea Federation of Small Businesses
KFW	-	Kreditanstalt fur Wiederaufbau
KFX	-	Korea Foreign Exchange
KLB	-	Korea Long Term Credit Bank
MCI	-	Ministry of Commerce and Industry
MOF	-	Ministry of Finance
NIF	-	National Investment Fund
SMIB	-	Small and Medium Industry Bank
SMIPC	-	Small and Medium Industry Promotion Corporation
SMIPF	-	Small and Medium Industry Promotion Fund
WPI	-	Wholesale Price Index

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

STAFF APPRAISAL REPORT

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Organization Chart

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Basic Data  
(as of September 30, 1980, unless otherwise stated)

1. Year of Establishment: 1961

<u>Ownership</u> :	<u>Paid-in capital</u> (in W million)	<u>Percent</u>
Government of Korea	42,044	99.97
Private shareholders	16	0.03
	42,060	100.00

3. Operations (in W million):

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u> (Sep 30)
<u>Approvals</u>						
Domestic currency equipment loans	7,295	18,755	21,663	42,638	65,139	32,407
Foreign currency equipment loans	12,369	13,533	23,991	36,498	45,958	19,072
(Foreign currency loans in \$'000)/a	(25,503)	(27,903)	(49,466)	(75,254)	(94,759)	(30,515)
Working capital loans /b	843,301	1,174,228	1,544,177	2,222,772	3,442,192	3,372,540
<u>Total</u>	862,965	1,206,516	1,589,831	2,301,908	3,553,289	3,424,019
<u>Commitments</u>						
Domestic currency equipment loans	7,295	18,755	21,663	42,638	65,139	32,407
Foreign currency equipment loans	10,109	13,589	21,326	39,229	44,433	17,254
(Foreign currency loans in \$'000)/a	(20,843)	(28,018)	(43,971)	(80,885)	(91,614)	(27,606)
Working capital loans /b	843,301	1,174,228	1,544,177	2,222,772	3,442,192	3,372,540
<u>Total</u>	860,705	1,206,572	1,587,166	2,304,639	3,551,764	3,422,201
<u>Disbursements</u>						
Domestic currency equipment loans	8,000	18,755	21,663	42,638	65,139	32,407
Foreign currency equipment loans	10,506	13,777	21,618	42,554	30,605	60,600
(Foreign currency loans in \$'000)/a	(21,662)	(28,406)	(44,573)	(87,740)	(63,103)	(96,960)
Working capital loans /b	844,351	1,174,228	1,544,177	2,222,772	3,442,192	3,372,540
<u>Total</u>	862,857	1,206,760	1,587,458	2,307,964	3,537,936	3,465,547
<u>Guarantees issued</u>	35,899	59,023	64,328	88,080	93,556	73,620

4. Status of Portfolio (W million):

	<u>Domestic</u> <u>currency</u>	<u>Foreign</u> <u>currency</u>	<u>Working</u> <u>capital</u> <u>loans</u>	<u>Guarantees</u>	<u>Total</u>
Cumulative commitments to Sep. 30, 1980	233,319	185,473	15,383,300	487,515	16,289,607
Outstanding as of Sep. 30, 1980	137,883	161,983	606,999	15,118	921,983

/a Using an exchange rate of US\$1 = W 485 for 1976 to 1979 and US\$1 = W 625 for 1980.

/b These working capital figures are gross, and give a slightly distorted impression of SMIB's operations. The net working capital loans (disbursements-repayments) were as follows (in W million): 1975: 23,859, 1976: 25,240, 1977: 47,791, 1978: 71,786.

5. <u>Earnings Record</u> (percentages):	----- Year ending December 31 -----					
	1975	1976	1977	1978	1979	1980 (Sep 30)
Net income as % of average equity	7.7	6.3	5.0	3.3	3.6	81.2
Financial expenses as % of average assets	7.7	8.0	7.7	8.6	9.4	5.8
Administrative expenses as % of average assets	4.1	3.5	3.2	3.3	3.1	1.8
Book value as % of par	225	155	140	129	124	239
Dividend payout ratio	36	0.2	0.1	23		

6. <u>Financial position</u> (W million):	----- Year ending December 31 -----					
	1975	1976	1977	1978	1979	1980 (Sep 30)
Total assets	275,718	342,209	477,884	733,325	1,039,107	1,256,613
of which total loan portfolio	192,365	234,202	308,890	456,867	678,883	906,865
of which term loan portfolio	107,139	109,692	149,478	229,967	304,100	432,047
Long-term debt	131,508	133,266	164,698	240,781	342,861	384,247
of which in foreign currency	35,113	43,619	54,264	84,646	89,903	122,859
Equity	6,882	12,493	18,256	25,814	33,649	100,634
Current ratio	1.2	1.1	1.1	1.0	1.1	1.0
Total debt equity ratio	39.1	26.4	25.2	27.4	29.9	11.5
Long-term debt equity ratio	17.4	9.8	8.3	8.5	9.1	3.6
Reserves and provisions as % of portfolio	2.1	2.0	1.9	1.4	1.0	6.4

7. SMIB's Interest Rates & Charges (as of Sep. 30, 1980):/a

Foreign Currency Loans

IBRD Loan 1175-KO	10.5% p.a.
IBRD Loan 1507-KO	9.9% p.a.
IBRD Loan 1749-KO	9.9% p.a.
ADB Sixth Loan	11.0% p.a.
Korea Foreign Exchange	LIBOR + 1.0% to 1.25%

Domestic Currency Loans

Loans to cooperatives	21.5% p.a.
Government-Funded Working Capital Loans	20.0% p.a.
Government-Funded Equipment Loans	20.0% p.a.
National Investment Fund Loans	18.5% p.a. up to 3 years
	19.5% p.a. for 3 to 8 years
Internal Fund Loans	19.5%-23.5% p.a. for prime borrowers
	20.0%-24.0% p.a. for other borrowers
Penalty charge on overdue loans	25.0% p.a.

8. Status of IBRD Loans as of Sep. 30, 1980 (in US\$'000):

Loan no.	Date signed	Date effective	Rate of interest	On-lending rate	Loan amount	Committed	Disbursed	Out-standing
1175-KO	11/26/75	01/28/76	8.5	10.5	30,000	29,857	29,857	21,869
1507-KO	01/04/78	03/10/78	7.9	9.9	55,000	54,568	53,368	48,240
1749-KO	07/23/79	09/26/79	7.9	9.9	60,000	43,256	27,869	27,863

/a In line with the practice of government-owned financial institutions in relending foreign exchange resources borrowed from official sources (IBRD, ADB, et al.), SMIB charges a uniform spread of two percentage points above its borrowing rates.

## 1. THE INDUSTRIAL SECTOR

### Contribution to the Economy

1.01 Since the early 1960s, the industrial sector, and more specifically manufacturing,<sup>/1</sup> has been the engine of growth of the Korean economy. Over the period 1974-78, the manufacturing sector has grown at an average of 17.5% p.a. in real terms compared to an average 11% growth of aggregate GNP. In 1979, the growth rate of the manufacturing sector slowed to 9.8%, still higher than the 6.4% growth of real GNP. The share of manufacturing in total GNP has increased from 25.2% in 1974 to 32.7% in 1979 while that of agriculture dropped from 25.4% to 19.2%. In 1979, seasonally adjusted manufacturing employment reached 3.1 million and accounted for 22.9% of the total employed population compared to 15.9% in 1973. Over the five-year period 1975-79, approximately 1.1 million jobs have been created in the manufacturing sector; this represented 53.6% of total net employment creation during that period.

1.02 Korea's success in economic development is largely based on a strategy of export promotion with emphasis on manufactured exports. Manufactured products, which accounted for about 52% of total exports in 1964, have gradually increased their share and have remained at about 90% since 1976. Gradual changes have taken place in the structure of manufactured exports over the past three years: light manufactured products including textiles have declined in relative terms from 52.7% of total exports in 1977 to 50.4% in 1979; heavy industry products have increased their share from 32.8% in 1977 to 38.6% in 1979. However, some of Korea's traditional light exports such as footwear and clothing have remained buoyant. The changing composition of Korean exports reflects the significant changes which have taken place in recent years in the structure of the manufacturing sector.

1.03 It is estimated that export expansion contributed about 35% of the growth in manufacturing output over the period 1975-77 against 74% for domestic demand. Between 1972 and 1976, exports grew in real terms at 32.7% but slowed to 15.8% in 1977-78. In 1979, the nominal value of exports reached \$15.1 billion, 18.4% higher than in 1978; however, in volume terms it represented a 0.9% decline over 1978. This was the result of high domestic demand which diverted goods from export markets and the effect of inflationary pressures on the competitiveness of Korean products. The growth rate of 16.3% in 1980, which pushed exports to \$17.5 billion was still relatively sluggish by Korean standards but some acceleration is expected in 1981 as a result of the 35% depreciation of the won (during 1980) and the anticipated upswing in world business activity.

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<sup>/1</sup> In 1979, manufacturing alone accounted for 96% (in 1975 prices) of total value added in the industrial sector (i.e. mining and manufacturing).

### Structural Changes in Manufacturing

1.04 The growth of the manufacturing sector has been accompanied by significant adjustments in the importance of the various component subsectors as shown in the following table:

COMPOSITION OF VALUE ADDED IN MANUFACTURING, 1970-78  
(W billion in 1975 prices)

	1970		1974		1978	
	Amount	%	Amount	%	Amount	%
<u>Light Industries</u>						
Textiles	176.9	15.6	425.0	18.5	710.1	16.3
Others	484.0	42.6	798.9	34.7	1,336.3	30.7
Subtotal	<u>660.9</u>	<u>58.2</u>	<u>1,223.9</u>	<u>53.2</u>	<u>2,046.4</u>	<u>47.0</u>
<u>Heavy Industries</u>						
Basic metals	26.9	2.4	102.1	4.4	224.9	5.2
Machinery /a	111.1	9.8	361.0	15.7	971.2	22.3
Chemicals /b	336.7	29.6	614.1	26.7	1,107.4	22.5
Subtotal	<u>474.7</u>	<u>41.8</u>	<u>1,077.2</u>	<u>46.8</u>	<u>2,303.5</u>	<u>53.0</u>
<u>Total Manufacturing</u>	<u>1,135.6</u>	<u>100.0</u>	<u>2,301.1</u>	<u>100.0</u>	<u>4,349.9</u>	<u>100.0</u>

/a Including fabricated metal products.

/b Including paper and paper products, petroleum and nonmetallic mineral products.

Source: Table 8.13. World Bank Economic Report dated May 15, 1979.

1.05 The composition of manufacturing shows a marked shift in favor of heavy industry whose share of total manufacturing value added exceeded 50% for the first time in 1978. The most significant gains have been registered by the machinery sector. The rate of growth of chemical industries, however, lagged behind so that the sector declined from about 30% in 1970 to 22.5% in 1978. Light industries have declined steadily since 1970, with sharpest drop being recorded in the food, beverage and tobacco sector. Textiles, meanwhile, have maintained their 16-17% share of total manufacturing value added. These changes in the structure of manufacturing reflect a deliberate



policy to shift production gradually from Korea's traditional light industrial production towards more skill- and technology-intensive types of production.

### Geographic Distribution

1.06 The 1975 population census showed that approximately 27% of the population of Korea lived in the cities of Seoul and Pusan; the province of North Gyeongsang in which Taegu, the third largest industrial city is located, accounted for another 14%. The following table shows that the regional distribution of manufacturing enterprises and employment is skewed in favor of Seoul and Pusan.

GEOGRAPHIC DISTRIBUTION OF INDUSTRY  
(%)

	1974			1977		
	No. of enterprises	No. of workers	Value added	No. of enterprises	No. of workers	Value added
Seoul and Pusan	34.6	48.7	44.5	38.6	46.2	37.5
Other regions	65.4	51.3	55.5	61.4	53.8	60.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Report on Mining and Manufacturing Survey. EPB 1977.

While Seoul and Pusan remain the largest industrial centers, marginal improvements have taken place between 1974 and 1977 in the redistribution of industrial employment outside these areas. This may be the first sign that government policies aimed at a better distribution of employment are having an impact. The efforts being made to reduce congestion in Seoul and Pusan include severe restrictions on industrial expansion in these two cities, a program of financial assistance for the relocation of industries, the promotion of new industrial estates such as the Pohang, Ulsan and Yeosu complexes and the Saemaeul Movement, initiated in 1971, for creating off-farm employment in rural areas.

### Factor Use and Efficiency

1.07 The main elements which have contributed to the rapid expansion of the manufacturing sector are (a) a high rate of investment and (b) efficiency in factor use, both capital and labor. Manufacturing investment increased

by a phenomenal 63.4% in real terms in 1978 and a further 17.4% in 1979. As a share of total fixed investment, manufacturing reached 38% in 1979 compared to an average of 21.9% over the period 1975-77. Within manufacturing, a major part of investment was directed towards fulfilling ambitious government targets for heavy industry. Heavy industry accounted for 78.9% of total manufacturing investment in 1977-79. Investment in light industry accounted for the remaining 21.1% and lagged significantly behind the Fourth Plan targets. Efficiency in factor use has also contributed to the high performance of the Korean manufacturing sector. Calculations of incremental capital to output ratios (ICORs) with a one-year lag show a gradual decline over the three consecutive periods 1961-66, 1966-71 and 1971-75, indicating that the use of capital had become more efficient. Since 1976 the increase in the share of heavy and chemical industries has led to a reversal of this trend but the increase has been large only in the past two years with the economic recession being the main culprit.

### Industrial Policies

1.08 The phenomenal growth of the manufacturing sector was, to a large extent, made possible by efficient and pragmatic government policies. Incentive packages have been developed and adjusted over time to fit evolving priorities for industrial development. With variable emphasis, policies have aimed at the promotion of export industries, import substitution, assistance to small and medium enterprises, geographic dispersal of industry and in the last few years, promotion of skill-intensive sectors with a higher technological content. Export promotion has been the major objective since the early sixties. Subsidies on exports have continued to increase in absolute terms over the period 1975-78 but were insufficient to compensate for the loss of competitiveness induced by Korea's higher prices relative to its major trading partners. As a result, the real effective exchange rate deteriorated sharply for Korean exporters over that period. The 19% devaluation of the Won in January 1980 and a further 16% decline in the remainder of that year has appreciably improved the situation and should serve to spur exports.

### Sector Issues

1.09 Korea's economy began to show definite signs of overheating in 1978. Manufacturing investment, which had been increasing at a rate of 13.3% in real terms over 1975-77, accelerated sharply to 63.4% in 1978. With hindsight, it appears that the growth of manufacturing investment was too rapid and was excessively concentrated in capital-intensive industries (such as heavy machinery and petrochemicals) resulting in a sharp rise in capital-intensity of output as well as increased inflationary pressures in 1978-79. Indications are that investment in heavy industry has exceeded, in some instances, the levels dictated by market size, financing capacity and technical capability. Overinvestment is now apparent in some branches of

heavy industry and real wage increases have outstripped productivity gains since the mid-seventies thus causing an erosion of Korea's comparative advantage in labor-intensive manufactured exports.

1.10 The financial system has played a crucial role in Korea by providing the financial support necessary to implement the Government's economic development strategy. For instance, the operation of the export credit system under government control has been a vital ingredient of the phenomenal export growth which has spurred the expansion of the economy since the mid-1960s. The Government has effectively used the financial system as a tool to implement its investment decisions in both the public and private sectors. The financial system remains characterized by a high degree of subservience to government directives and acts as a channel of subsidized finance for preidentified priority activities. The substantial degree of government control and the large recourse to "subsidized directed lending" have contributed towards the creation of one of the major problems with which Korea is now faced with, namely overinvestment in certain segments of the manufacturing sector. The main instrument used by the Government to effect the transfer of resources towards the development of heavy manufacturing and chemical industries was the National Investment Fund. Similar government sponsored funding programs have been established to finance other industrial priority areas such as machinery industries, small and medium industries, etc. The Government has recognized that this system of "subsidized/directed" lending has led to suboptimal allocation of funds and has constrained the overall efficiency of the financial system.

1.11 The Government has begun to formulate a structural adjustment program aimed at enabling the industrial sector to continue in its role as the major source of growth. Structural adjustments include a comprehensive reform of the financial system with emphasis on a liberalization of the operations of intermediaries, particularly the commercial banks, plans to rationalize the structure of heavy industry by encouraging mergers of the firms involved, and a re-examination of the incentive system. The Bank has been consulted on this effort and has under review the Government's request for a structural adjustment loan. The financial sector reform has also been discussed with the Bank in the context of two recent lending operations to the Korea Development Bank and the Korea Long-Term Credit Bank. A package of specific policy measures has been agreed upon in connection with these two projects which aims at improving the efficiency of the financial system and its responsiveness to the increasing complexity and sophistication of the Korean economy.

#### Recent Performance and Short-Term Prospects

1.12 After averaging a growth rate of nearly 11% during 1977-78, the Korean economy entered a downswing in 1979. The real growth rate slowed to 6.4% in that year and then plummeted to -5.7% in 1980. Over-expansion

of the economy in 1976-78, stagnation of exports, the resource transfer arising from oil price hikes, and the measures taken to restrain inflation are some of the reasons behind the recession, with a severe harvest failure accounting for the steepness of the fall in 1980.

1.13 The most recent projections made by the Government call for GNP growth rates of 5-6% in 1981 and 7-8% in 1982, much of which will be the outcome of an expansion in industrial output. Fixed capital investment is expected to rise by 4% in 1981 and a further 8.3% in 1982. At the same time, some restructuring of the economy, particularly in the industrial sector, seems desirable to improve efficiency. Korea's shift from labor-intensive towards skill-intensive industries ought to be pursued but investments in heavy industry need to be carefully reviewed and rationalized to avoid overinvestment and excess productive capacity.

## 2. THE SMALL AND MEDIUM INDUSTRY SECTOR

### A. Sector Profile

2.01 Definition. The Small and Medium Industry (SMI) sector is defined in a number of laws and government decrees in terms of either total assets or employment size as follows:

	Total assets (W million)	Number of employees
Mining, manufacturing, transportation	Up to 500	Up to 300
Construction	Up to 500	Up to 50
Commerce and services	Up to 50	Up to 20

The purpose of the definition is mainly to differentiate between the clientele of the various government-owned development finance institutions./1

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/1 For some specific industrial activities, the Government in 1979 has enlarged the definition of SMIs to include manufacturing enterprises with up to 500 employees (para. 3.08).

### The Role of SMIs

2.02 The role of the SMI sector remains substantial, although declining steadily since the mid-sixties in terms of its relative contribution to the economy as a result of Korea's rapid industrialization (Annex A, Table 1). In 1978, there were over 30,000 enterprises in the SMI sector accounting for 96.5% of all manufacturing establishments, 47.8% of manufacturing employment and 34.3% of value added. The share of SMIs in total manufacturing output and value added has stabilized since the mid-seventies at a little over 30%; employment has marginally increased from 46% in 1975 to 48% in 1978. The export performance of the sector is quite remarkable, accounting directly or indirectly for over 40% of Korea's total manufactured exports in the period 1976-78, which was substantially in excess of its share of value added and output.

2.03 Aggregate figures tend to hide the declining role of smaller enterprises within the SMI sector. The number of enterprises with less than 200 employees has declined from 98% of all manufacturing establishments in 1968 to 94% in 1977. The percentage of labor employed by these smaller firms has also declined from 54% to 38%, value added and output from 36% to 24%. This trend reflects the decreasing competitiveness of smaller enterprises while medium sized enterprises have been able to maintain their competitive edge in a changing economic environment. For the SMI sector as a whole, and despite some stabilization in the economic importance of the sector in the seventies, the general trend may be towards a slowdown in the growth of output of the SMI sector relative to total industrial production, as indicated below:

	1975	1977	1979	1980
Total production	100	155.6	213.5	209
SMI production	100	144.1	193.8	170

This downward trend is the natural result of Korea's rapid industrial development process and of changes in the comparative advantage of SMIs.

### Industrial Structure of the SMI Sector

2.04 The SMI sector has played a prominent role in the process of industrialization in Korea. In the 1960s, industrial development was based on labor-intensive production techniques and SMIs dominated the light manufacturing sector, particularly activities involving simple assembly, mixing and finishing. The broadening of markets resulting from Korea's

success in export promotion later allowed small manufacturers to expand operations by taking advantage of scale economies. The emergence of large scale producers of light manufactures has reduced the share of SMIs in light industries. At the same time, SMIs have diversified their operations into "heavy" industry, particularly in the machinery and metal working subsectors. The following table shows the structure of the manufacturing sector in 1977.

STRUCTURE OF THE MANUFACTURING SECTOR IN 1977  
(In W billion)

	Output			Value added		
	Total	SMI		Total	SMI	
		Amount	%		Amount	%
<u>Light Industry</u>						
Food and tobacco	2,432	935	38.4	1,069	328	30.7
Textiles	3,244	1,025	31.6	1,095	397	36.3
Wood products	490	153	31.2	138	58	42.0
Paper products	579	285	49.2	232	106	45.7
Nonmetallic minerals	620	262	42.3	292	156	53.4
Others	244	126	51.6	105	54	51.4
Subtotal	<u>7,609</u>	<u>2,786</u>	<u>36.6</u>	<u>2,931</u>	<u>1,099</u>	<u>37.5</u>
<u>Heavy Industry</u>						
Chemicals	3,426	852	24.9	1,027	294	28.6
Basic metals	1,187	230	19.4	326	65	19.9
Machinery	3,216	849	26.4	1,312	355	27.1
Subtotal	<u>7,829</u>	<u>1,931</u>	<u>24.7</u>	<u>2,665</u>	<u>714</u>	<u>26.8</u>
<u>Total</u>	<u>15,438</u>	<u>4,717</u>	<u>30.6</u>	<u>5,596</u>	<u>1,813</u>	<u>32.4</u>

While food products, textiles and clothing are still dominant in SMI production, the importance of machinery and chemicals has grown steadily.

#### Factor Costs and Competitiveness of SMIs

2.05 The gradual shift of the SMI sector away from light manufacturing has been reinforced by government policies designed to expedite the restructuring of industry in the face of changing factor costs, comparative advantage, and international market opportunities. With rising labor costs

at home and the increasing competitiveness of the export market, the Government has placed a heavy emphasis on the growth of large scale manufacturing and on broadening the product mix to include such capital and skill intensive items as consumer durables, machinery, heavy chemicals and automobiles. Further, Korean producers have found that price has ceased to be the sole arbiter of domestic and export markets. The ambit of competition has come to embrace such factors as product quality, delivery schedules, credit to customers, marketing and technology, which are areas where larger firms usually have an inherent advantage.

2.06 In its efforts to build up heavy industry and raise the productivity and technological levels of major producers, the Government was responsible for diminishing the flow of resources to the SMI sector in the late 1970s. This retarded somewhat the pace of modernization in the SMI sector and led to a widening of the factor productivity gap between large and small firms. In addition, the rapid development of new technologies increased the demand for skilled labor throughout industry and has led to labor shortages in 1978-79. Labor turnover and wage levels increased in the SMI sector as workers sought employment in larger enterprises. In fact, the wage index of SMIs has outpaced that of large industry; in 1979, average wage levels in the SMI sector were 76% of large industry wages compared to 65% in the late 1960s. Labor productivity in small industry was, however, much lower, reaching only 56% of productivity in large industry, thus eroding further the profitability of SMIs. Similarly, investment in the SMI sector which had risen from 20% of manufacturing fixed investment in 1975 to 27% in 1977, lagged behind in the following years. Investment in light industry, although not directly comparable to SMI investment, which accounted for 40% of total manufacturing investment over the period 1972-79 and was expected to decline to 36% over the Fourth Plan period (1977-81), lagged behind Plan targets. Over the period 1977-79, it accounted for only 20% of total manufacturing fixed investment. Higher allocations of investment to light industry and SMI might have helped to improve quality of production and to maintain competitiveness.

2.07 Rising production costs induced by higher wage levels in industry and less than optimal investment levels may, in part, be responsible for the recent slowdown in the growth of Korea's light manufactured exports and the declining share of SMIs in total manufactured exports from 40.5% in 1978 to 38.9% in 1979 and 34.6% in the first eight months of 1980.

#### Government Policies in Support of the SMI Sector

2.08 The Government launched its program for promoting SMIs in the early 1960s with the establishment of the Small and Medium Industry Bank (SMIB) and a Small Industry Division in the Ministry of Commerce and Industry (MCI). The Government initially confined its efforts to the provision of financial and technical assistance through SMIB. In the later

half of the 1960s, SMI support policies became more selective. Emphasis was placed on the promotion, through preferential credit and technical guidance, of export oriented SMIs. The Government also encouraged joint purchases of inputs and marketing under cooperative arrangements and vertical linkages between large industries and SMIs. These policy objectives remained largely unchanged in the first half of the 1970s with greater weight attached to the promotion of "Saemaul factories"/1 providing off-farm employment in rural areas.

2.09 Current Policy Objectives. SMI sector priorities for the Fourth Plan period (1977-81) were formulated in the context of the broader objective of industrial diversification into more capital and technology intensive activities. While the traditional role of SMIs in employment creation and dispersal of industry continued to be emphasized, priority areas were identified as (a) promotion of vertical linkages with large industry; (b) modernization of production facilities through capital investment and business mergers; (c) increased support of activities with favorable growth prospects (e.g. machinery industry); and (d) inducement of technical innovation and productivity improvement. The increasing selectivity of government policies in the SMI sector was expected to translate into the identification of target industrial groups, the design of a development plan for each industrial group selected, and finally, the selection within the target groups of individual enterprises eligible for intensified financial and technical assistance.

2.10 In practice, the designation by the Government of specific branches of the SMI sector to be promoted has not always proceeded on the basis of a good evaluation of the growth potential and comparative advantage of the target groups. This shortcoming inherent in the system of directed lending is being addressed by the Government in the context of the financial sector reform. Attempts at greater selectivity have also been accompanied by several measures aimed at protecting the SMI sector as a whole from competition by large industry through the designation of so-called "intrinsically small" activities /2 which larger enterprises could not enter and through the enforcement of compulsory subcontracting arrangements./3 These contradictory objectives have substantially reduced the efficiency of government policies in the SMI sector.

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/1 The Saemaul or New Community movement was launched in 1971.

/2 Intrinsically small-scale activities have increased from 23 in 1980 to 36 in 1981.

/3 Items designated for production by SMIs under subcontracting arrangements with large industry have increased from 71 in 1980 to 103 in 1981.



2.11 Legal and Institutional Framework. Over the years, the Government has established the legal and institutional tools required to enforce its policy objectives in the SMI sector. The legal instruments include the SMI Cooperative Act and the SMI Business Coordination Act of 1961, the SMI Basic Act of 1966, the SMI Affiliation Law /1 of 1975 and the SMI Promotion Law of 1978 whose main objective was the establishment of the SMI Promotion Corporation. The institutional framework has also expanded rapidly with the establishment in the early sixties of the Small and Medium Industry Bank (SMIB) and the Citizens National Bank (CNB). In 1962, the Korea Federation of Small Business (KFSB) was established to operate as the apex of a network of provincial and national cooperatives. KFSB has since remained very active as a representative of SMI interests in government circles. It also provides a wide range of technical assistance, marketing and procurement services to its members. The Korea Credit Guarantee Fund (KCGF) which also provides technical assistance to SMIs in addition to its normal financial services was established as an independent institution in 1976. As the institutional infrastructure supporting SMIs grew in size and complexity, the Government realized that the SMI Bureau of MCI could not singlehandedly coordinate the activities of the various bodies involved. To this end, the SMI Promotion Law of 1978 provided for the creation of the SMI Promotion Corporation (SMIPC) which the Government expected ultimately to develop into a powerful national agency in charge of implementing policies for the development of the SMI sector.

2.12 The SMI Promotion Corporation. SMIPC's major activities cover: (a) financing the modernization of specific SMI projects in priority sectors designated by MCI; (b) establishing and financing industrial estates and common processing facilities for SMIs; (c) improving and coordinating the delivery of managerial and technological assistance through training and licensing of extension agents in specialized technical assistance agencies; and (d) research and publication of statistical information on SMI operations. SMIPC provides financial support to priority subsectors through its administration of the SMI Promotion Fund (SMIPF); financial resources are channelled to eligible borrowers through existing financial institutions, namely SMIB and CNB. SMIPC has yet to develop its expertise and staff capability to fulfill its mandate. Its performance record after two years of operation is not impressive, particularly in the area of extension services where considerable effort is required to make the system more responsive to the needs of SMIs. The reorganization of SMI extension services proposed in para. 2.15 is expected to help improve SMIPC's efficiency and to strengthen its coordinating function.

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/1 Governing relationships and subcontracting arrangements between large industry and SMIs.

# Technical Assistance to SMIs

2.13 The institutional framework for technical assistance to SMIs comprises the following:

Institution	Area of service	
	Managerial	Technical
<u>1. Government or Government-Controlled Technical Institutions</u>		
Small and Medium Industry Promotion Corp. (SMIPC)	X	X
Industrial Advancement Administration (IAA)		X
National Industrial Research Institute (NIRI)		X
Korea Institute of Machinery and Metals (KIMM)		X
<u>2. Cooperative-Type Institutions</u>		
Korea Federation of Small Business (KFSB)	X	X
Korea Chamber of Commerce and Industry (KCCI)	X	
<u>3. Government Controlled Financial Institutions</u>		
Korea Credit Guarantee Fund (KCGF)	X	X
Small and Medium Industry Bank (SMIB)	X	X
Citizens National Bank (CNB)	X	X

The total number of extension agents in the nine institutions listed above was 531 in 1979, of which 63% belonged to the Institute of Machinery and Metals, an institution which provides limited services to the SMI sector. The number of permanent staff employed by the technical assistance agencies appears to be small relative to the needs of the SMI sector. These extension agents, however, are supplemented by about 700 technical "specialists", most of them college professors and public accountants trained by the SMIPC and hired on a short-term basis as consultants.

2.14 Considerable effort would be required to improve the qualifications of extension service officers and to increase the coverage of services. In 1979, on-site visits were organized for only 788 enterprises compared to a potential clientele of over 30,000 enterprises. The most active agencies were the SMIPC, KFSB and the Guarantee Fund. SMIB and CNB only provided limited services. In fact, several of the agencies expected to assist SMI enterprises are not equipped to do so effectively. This seems to be the case for the financial institutions whose support on technological matters is doubtful and whose expertise probably lies in financial and managerial guidance. For all nine institutions, technical assistance is only a minor part of their activities and services are limited to a particular segment of the SMI sector, their clientele. Fragmentation and duplication of efforts are almost inevitable. Quality of services is also very doubtful and acceptability of advice is not widespread in the SMI sector.

2.15 It should be recognized that government-sponsored technical assistance services are only one of several channels for achieving technical transfers. Machinery suppliers and large industry are equally effective vehicles for providing and improving technologies. However, in view of the urgent need to improve productivity and quality of output in the SMI sector, some strengthening of extension services would be desirable. Because the quality of these services has been allowed to deteriorate over time, considerable efforts need to be made by the Government to reorganize the system of extension services and make it more responsive to the needs of the SMI sector. During negotiations for the proposed SMIB project, the Government finalized with the Bank the terms of reference of a comprehensive study of extension services to be carried out in the context of an overall study of the SMI sector sponsored by the Government (Annex A, Appendix 1). Based on a clear formulation of sectoral objectives and a detailed review of the present set up, the extension services study would provide recommendations for a comprehensive program of reorganization of technical assistance to SMI. This study would give particular attention to the machinery subsector in view of its growing importance in Korean industry and in the SMI sector. Both the SMI sector study and the extension services study are to be completed by December 31, 1981.

#### B. Financing the SMI Sector

##### Financial Structure and Funding Requirements of SMIs

2.16 Annex A, Table 2, provides a comparative analysis of the financial structures of SMIs and large industries in the seventies. While the asset structure of SMIs has remained unchanged, their debt and equity structure has evolved rapidly as shown in the following table:

As of December 31,	1973 (%)	1978 (%)
Liabilities		
Short-term	44.2	56.1
Long-term	15.6	23.4
Equity	40.2	20.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>

2.17 Given the composition of SMI assets, the mix of short-term and long-term resources (equity and long-term borrowings) used to finance these assets was fairly adequate in 1973 with a ratio of about 44:56. Long-term resources, however, were heavily skewed towards equity financing: long-term borrowings accounted for only 28% of total long-term funds while a 50% ratio would have been more appropriate. Although the above figures are cross-sector averages and there is no such thing as an optimal financial structure, a more suitable resource mix might have resulted from bringing long-term borrowings and equity to about 30% each of total assets and keeping short-term borrowings at about 40%. The heavy reliance of SMI entrepreneurs on their own equity resources in the early seventies was effectively constraining their growth potential and was increasing the average cost of resource mobilization since equity resources, in Korea, are much more expensive than borrowings. Project sponsors, however, had to rely on their own resources to finance the acquisition of assets because external sources of funds were reluctant to provide financial assistance to the high cost and high risk SMI sector. This effective discrimination was reflected in the fact that borrowings from banks financed an average of 27% of SMI assets in 1973 compared to 44% for large industry.

2.18 In the mid-seventies, the panoply of government policies in support of the SMI sector was complemented by a requirement that financial institutions allocate a specific portion of their loans to the SMI sector. At the same time, subsidized lending programs funded by the Government were stepped up. These measures largely removed the discrimination against SMI lending and, by end 1978, bank borrowings had increased to 37% of SMI assets with the increase being supplied primarily in the form of long-term loans.<sup>/1</sup> Long-term borrowings have steadily increased over the period 1973-78 from about 16% to 23% of total assets, moving closer to the desirable target of 30%.

2.19 The increased availability of long-term external funds has allowed a reduction in the excessive reliance of SMIs on equity financing. By end-1978, however, equity had declined to 20.5% of assets, significantly less than the notional 30% target. This excessive reduction in equity financing resulted from a rapid increase in short-term borrowings from 44% to 56% of total assets in the period 1973-78. Unlike the displacement of equity by long-term borrowings, this further reduction in equity financing has not had a positive impact on the aggregate financial structure of the SMI sector. The 1978 aggregate debt/equity ratio of nearly 4:1 was too high, because of excessive short-term indebtedness.

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<sup>/1</sup> "Long-term" loans are defined in the accounting sense, i.e., loans with a maturity exceeding one year. Long-term loans so defined accounted for about 50% of SMI Bank borrowings in 1978; equipment loans, however, accounted for only 17% of total SMI borrowings.

2.20 Furthermore, it was apparent that, in 1978, part of SMI fixed assets was financed with medium-term working capital loans rather than through sounder methods of financing such as equity and long-term equipment borrowings. At end-1978, long-term equipment loans could be estimated at about 6.5% /1 of assets with other "long-term" borrowings (17% of assets) being actually medium-term working capital resources. Long-term equipment loans and equity resources therefore represented only 27% of assets compared to the 35% share of fixed assets in total assets. A more balanced financial structure in the SMI sector would require (a) an increase in equity financing from 20.5% of assets to about 30%; (b) a marginal increase in long-term borrowings mainly in the form of equipment loans from 23.4% to about 30%; and (c) a reduction in short-term debt from 56.1% to about 40%.

#### Government Policies in the Financing of SMIs

2.21 As indicated above, the Government has played an important role in reducing past discrimination by financial institutions against long-term lending to SMIs. The effectiveness of the Government's strategy for allocating funds to SMIs was made possible by (a) the establishment in the early sixties of specialized government-owned financial institutions in support of the SMI sector; (b) the creation of a guarantee scheme which mitigated the financial risk involved in SMI lending, and (c) the requirement that non-specialized financial institutions earmark a specific share of their total lending for SMIs.

2.22 Institutional Framework. The existence of financial institutions serving specific sectors of the economy (agriculture, housing, exports, large industries and small industries) is characteristic of the highly fragmented structure of the Korean financial system. The Small and Medium Industry Bank (SMIB) was established by the Government in 1961. In 1963, the Citizens National Bank (CNB) was created to mobilize household savings and provide financing to its depositors. CNB's functions have gradually evolved towards financing household and cottage enterprises and it is currently allowed to finance small industries employing up to 100 persons. At the time of its establishment, SMIB was authorized to finance enterprises with less than 100 employees. The limit was subsequently raised to 200 employees and, in 1977, to 300 employees./2 Both SMIB and CNB provide working capital and equipment loans but the latter is their "raison d'etre." Because the scope of

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/1 Namely, 17% of bank borrowings which accounted for 37% of total SMI assets.

/2 SMIB is currently authorized to finance entrepreneurs with up to 500 employees in specific activities defined in Small and Medium Industry Promotion Act of 1979.

their operations is limited to the SMI sector, they accounted jointly for a substantial share (37%) of all lending to the SMI sector and as much as 72% of all SMI equipment loans outstanding as of July 31, 1980 (Annex A, Table 3).

2.23 The specialized institutional framework for financing SMIs was complemented in 1967 by a credit guarantee scheme administered by SMIB. In 1976, the Korea Credit Guarantee Fund (KCGF) was spun off as an autonomous institution serving the needs of both large and small enterprises. KCGF however, has been required to extend at least 40% (by amount) of its guarantees to the SMI sector.

2.24 The Korean financial system also comprises a number of nonspecialized institutions which serve the needs of industry irrespective of size. These institutions operate alongside the two government-owned specialized banks (CNB and SMIB) in servicing the SMI sector. Commercial banks, short-term finance companies, foreign commercial bank branches, leasing companies and the Korea Long-Term Credit Bank (KLB) all provide varying degrees of financial support to the SMI sector. In practice, only the commercial banks (nationwide and regional) have substantial lending operations to the SMI sector because of their large resource base and loan portfolio. With 63% of all SMI loans outstanding as of July 31, 1980, the aggregate SMI loan portfolio of commercial banks was nearly twice as large as that of SMIB and CNB together.<sup>/1</sup>

2.25 There is substantial complementarity in the types of financial assistance provided to the SMI sector by the commercial banks and the two specialized banks (CNB and SMIB). The commercial banks provide mainly short-term working capital loans: at end-July 1980, equipment loans accounted for only about 6% of their SMI loan portfolio. SMIB and, to a lesser extent, CNB, are more heavily geared towards equipment financing with such loans accounting respectively for 36% and 10% of their portfolio. However, as indicated in para. 2.20, lending for acquisition of equipment by SMIs appears inadequate relative to the needs of the sector. Considerable scope seems to exist for increasing the role of commercial banks in the provision of long-term equipment loans.

2.26 Government Guidelines for SMI Financing. In Korea, the Government strictly regulates the allocation of funds by the financial sector. Government-owned specialized banks serving SMIs have been used as a channel for administering, in addition to their normal operations, a number of

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<sup>/1</sup> The share of the nationwide commercial banks, however, has declined from 60% of all SMI loans in 1970 down to 49% in 1979, while regional commercial banks increased their share from 4% to 14% during the same period (Annex A, Table 4).

subsidized lending programs funded by the Government to support priority activities designated by the Ministry of Commerce and Industry (MCI) /1. The target group of potential borrowers as well as the maximum amounts, duration and terms of the loans are determined by the Ministries of Finance and Industry. As for the allocation of funds by commercial banks, controls are exercised in the form of (i) general guidelines identifying preferred, unpreferred and prohibited industrial activities; (ii) a mandatory requirement instated in 1976 that SMI lending account for a specific share of the banks' portfolio; and (iii) the requirement that SMI borrowers in priority activities be considered as prime borrowers and therefore eligible for a 0.5% p.a. rebate on the standard interest rate of commercial loans.

2.27 Government guidelines governing the SMI portfolio composition of nearly all non-specialized financial institutions were introduced in 1976. The requirement that the SMI sector account for 30% of the annual increase in lending by nationwide commercial banks was raised to 35% in October 1980 and from 40% to 55% for regional commercial banks. As of end-July 1980, the SMI sector accounted for 32.5% and 54.5% respectively of the total outstanding loan portfolios of nationwide and regional commercial banks. Similarly, short-term finance companies, whose SMI operations accounted for 25% of their total portfolio as of July 31, 1980, have been required to raise this ratio to 30%. Foreign commercial banks are expected to earmark 10% of their total portfolio for SMIs. The Long-Term Credit Bank Law also requires that KLB allocate 20% of its lending to the SMI sector. No specific requirement has been imposed on leasing companies but SMI operations account for about 30% of their total portfolio. The 40% minimum requirement imposed on the operations of the credit guarantee fund for SMI support has remained unchanged. In fact, the SMI sector accounted for 56.6% of all outstanding guarantees issued by the KCGF at end-June 1980.

2.28 Most of the new guidelines simply reflect actual portfolio composition and should therefore have no great impact on the flow of institutional finance to the SMI sector. While aggregate fund flows to SMI are adequate, the share of long-term equipment lending remains insufficient relative to working capital finance and the recent government measures do not seem to address this issue adequately. Equipment lending is particularly important in the light of the objective of promoting more capital and skill intensive investments.

#### Funding of SMI Lending Programs

2.29 Four special lending programs are currently in operation to provide financial assistance to the SMI sector. In 1980, these four programs were

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/1 For example, specialized machinery industries, Saemaul projects and subcontractors.

expected to provide an aggregate amount of W 541 billion /1 to the sector. The "General Loan Program for SMI" is, by far, the largest, accounting for 72% of total SMI lending in 1980. Funding is from SMIB's own resources and from the resources supplied to SMIs by commercial banks in accordance with government guidelines for portfolio composition. The interest subsidy is negligible under this program. The other three lending programs are part of the government-sponsored system of "directed/subsidized lending" and provide a substantial interest subsidy to eligible subborrowers. In aggregate they accounted for 28% of total SMI lending in 1980. Two of these funds (the SMI Promotion Fund /2 and the National Investment Fund /3) are funded directly by the Government. In aggregate, they amounted to W 41 billion in 1980, or 7.6% of total SMI funding. The third program, the "Special Low-Interest Rate Loan Program," amounted to W 110 billion; its funding is from SMIB's own deposit resources with an interest subsidy rebated by the Government to compensate for the differential between the cost of funds to SMIB and the applicable lending rate. Eligible activities include export industries, machinery manufacturing, production of daily necessities, defense industries, etc.

2.30 In contrast to the financing of large industry for which subsidized lending /4 was estimated at about 55% of total outstanding loans to large industry at end-1979, subsidized loans accounted for only a third of total SMI loans./5 Government objectives aimed at reducing the magnitude and scope of NIF and other subsidized lending programs to large industry should, over time, restore greater parity in the treatment of SMI and large industry.

#### Financial Expenses in the SMI Sector

2.31 Financial expenses tend to represent a substantial portion of total expenses in Korean industry because of the high ratio of indebtedness. During the year 1978, interest expenses amounted to about 15.6% of total SMI

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/1 On a disbursement basis.

/2 The SMIPF is administered by the SMI Promotion Corporation. Eligible activities include machinery industries, jewelry industries, traditional handicrafts, Saemaul factories and cooperative projects.

/3 NIF lending is normally earmarked for large heavy industries; less than 10% is earmarked for SMI lending.

/4 NIF and export credit financing.

/5 Including export credit financing in addition to the programs described above.



profitability of SMIs (net profits to total assets have declined steadily in the SMI sector from 6.1% in 1973 to 1.6% in 1979) renders enterprises particularly vulnerable to increases in borrowing costs. For example, the January 1980 increase of 6 percentage points <sup>/1</sup> in borrowing costs translated into a 30% increase in financial expenses for Korean industry, i.e., approximately 1.1% of total assets on an after-tax basis. The upward adjustment of interest rates would have wiped out about 66% of SMI net profits assuming that profitability had remained at the 1979 level. In fact, the economic recession has further constrained profitability in the manufacturing sector and although recent statistics are not available, substantial losses have been reported in Korean industry.

2.32 The vulnerability of Korean industry to interest rate fluctuations results largely from its high indebtedness, and also from the Korean practice of applying new interest rates to all loans, including long-term borrowings contracted prior to a change in the interest rate structure. This practice which is equivalent to a variable interest rate on long-term loans would be justified if substantial term transformation were achieved in the financial system. It does not appear, however, that Korean financial institutions use short-term resources for funding their term lending and therefore need to pass on to their borrowers of term loans the higher cost of short-term resources resulting from an increase in deposit rates. Given the present stage of development of the Korean financial system, it seems desirable to encourage financial institutions to offer to their customers the option of fixed rate long-term borrowings for financing equipment purchases. Fixed rate borrowings could be made available within the limit of the fixed rate resources available to financial institutions. Variable rate long-term loans could also be offered to allow some element of term transformation. The availability of fixed rate long-term equipment loans should be viewed as (a) an incentive for Korean industry to restructure its liabilities by lessening reliance on short to medium term resources and perhaps more importantly (b) as a means of developing the Korean capital market through the issuance by financial institutions of long-term instruments of indebtedness such as bonds and debentures.

#### Interest Rate Structure

2.33 The erosion of profitability induced by the Government's abrupt increase in lending rates in January 1980 became rapidly unbearable for Korean industry. The Government acknowledged the difficulties faced by industrialists and scaled down lending rate levels in three steps, in June, September and November 1980, by about 5 percentage points in aggregate. Annex A, Table 5 shows Korea's interest rate structure following these adjustments. In November 1980, standard lending rates for equipment loans ranged from

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<sup>/1</sup> From a standard rate of 20% to 26% p.a.

19.5% to 22% depending on loan maturity and on the borrower's credit-worthiness. Applicable rates for working capital loans also ranged from 19.5% to 22% depending on the type of loan.

2.34 The aggregate decline in deposit rates since June 1980 has outpaced the decline in lending rates, thus increasing the spread between deposit and lending rates. As a result, average deposit rates were marginally lower in November 1980 than a year earlier while lending rates were 1% higher. This Government policy of increasing the interest spread accruing to financial intermediaries has been complemented by a lowering of reserves requirements /1 which effectively increased lending margins.

2.35 In addition to the above changes in Korea's interest rate structure, the Government has started a process of reduction of the subsidy elements in the lending programs for large industries (NIF and export credits)./2 Subsidies available under lending programs aimed at SMIs, however, have not been reduced substantially. Applicable rates range from 10% to 17% p.a. for the SMI Promotion Fund and 18% to 19% for the Special Loan Program. The decision not to reduce subsidies under SMI specific lending programs reflects the feeling in some government circles that, in the past, subsidized credit was unduly limited to large industries, thus resulting in higher average financial expenses in the SMI sector. However, the reduction in subsidies granted to large industry is expected to remove the bias. The need for maintaining interest subsidies in the SMI sector would need to be reassessed critically by the Government in the context of the financial sector reform.

2.36 The impact of subsidized lending on the level of investment in preferred SMI subsectors is, at best, marginal because of the multiplicity of lending rates and terms applicable to specific priority subsectors. Lending rates and terms are fixed by the Government and vary depending on the degree of priority attached to a particular activity (machinery industry, Saemaul project, enterprises located in industrial estates, etc.) but also and less justifiably depending on the source of funds (NIF, SMIPF, etc.), a variable over which the borrower obviously has no control. Borrowing terms therefore may vary for projects operating within the same branch of activity and have little bearing on project risks and benefits. The allocative efficiency of the system is doubtful since potential investors are not in position to determine in advance the applicable borrowing conditions. A simplification of the interest rate structure would be desirable and could be achieved by the Government through a reorganization of the system of "directed/subsidized lending" for financial industry.

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/1 Down to 14% for demand deposits and 10% for savings deposits.

/2 The interest subsidy under NIF has been reduced from 4% in January 1980 to one percent in November. The subsidized lending rates applicable to export credits have been increased in January 1980 from 9% to 12% and a further increase to 15% is expected in 1981.

2.37 Inflation. During 1980, the depreciation of the Won against the US dollar reached 36%. This rapid decline in the value of the Won following five years of stability, increased inflationary pressures. In the ten-month period January-October 1980, cumulative inflation reached 32.1%. By October, the wholesale price index was growing at a reduced annual rate of 19.2%. The Government is projecting wholesale price increases of 20-25% in 1981 and 10-15% in 1982. In relation to expected inflation in 1981, the present interest rate structure is negative in real terms, particularly in the case of deposit rates.<sup>/1</sup> Given the fact that, in practice, interest rates on long-term loans and deposits are flexible in Korea, expected inflation in the medium-term is not a critical parameter in determining the appropriateness of the current interest rate structure.

2.38 The principle of maintaining interest rates at a positive level over the medium- and long-term has been accepted by the Korean Government in the context of its discussions with the Bank on the reform of the financial system. The Government feels that frequent changes in interest rates based on short-term variations in inflation rates, as Korea experienced in 1980, could be destabilizing. It is, however, the Government's intention to keep interest rates under periodic (at least annual) review. The Government's commitment to maintaining interest rates at a positive level in real terms was evidenced in January 1980 when a 6% upward adjustment was enforced. Other constraints, namely the high leverage of Korean industry and its poor financial structure made the resulting increase in financial expenses practically unbearable at a time of severe economic recession. The downward adjustments of interest rates which followed in three stages represented a pragmatic response to this constraint. Priority should now be attached to improving the financial structure of Korean industry over time, so as to restore some flexibility in the efficiency of such monetary and financial policy instruments as interest rates. The role of financial sector policies and of financial intermediaries is critical in ensuring that, over time, equity financing account for a larger share of industrial investment.

#### The Bank's Lending Strategy for Industry

2.39 For over a decade, the Bank's industrial lending strategy in Korea has been premised on the development of a strong institutional base of Development Finance Companies (DFCs) acting as intermediaries for channelling

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<sup>/1</sup> In relation to the projected GNP deflator for 1981 (19.3%), standard lending rates are marginally positive.

resources including Bank funds to industry. This type of lending was initiated in 1968 with a loan to the Korea Development Finance Corporation (KDFC) /1. To date, eight Bank loans, aggregating to \$410 million, have been made to KDFC. Over time, the Bank has established direct relationships with other long-term lending institutions serving particular segments of the industrial spectrum. Lending to the Korea Development Bank (KDB) started in 1975. Four Bank loans have been extended to KDB in the past five years for a total of \$352.5 million. Although Bank resources accounted for a limited part of KDB and KDFC's total lending operations, the Bank has contributed significantly to meeting the needs of large-scale industry through these two intermediaries. Financial assistance by the Bank to smaller-scale enterprises was initiated in 1975 with a loan to SMIB. Three Bank loans have been channelled to SMIB for an aggregate amount of \$145 million; the proposed loan would be the fourth operation with SMIB. Coverage of the very small end of the SMI sector was improved in 1980 with a loan of \$30 million to CNB. Having established lending relationships with the four major DFCs operating in the industrial sector, the Bank is now in a position to help cover the foreign exchange requirements of the entire spectrum of industry. The critical role played by the four DFCs in the supply of long-term finance to Korean industry is reflected in the fact that, in aggregate, they provided 45.8% of the increase in medium- and long-term loans extended to the manufacturing sector in 1977-79.

2.40 The major objectives of Bank lending through DFCs in Korea were (a) resource transfer to provide the foreign exchange resources needed for industrial development; (b) support of the government's industrial strategy including promotion of balanced growth through regional development, employment generation, export orientation and skill development; and (c) strengthening the institutional base for efficient financial intermediation. These three objectives will remain at the forefront of the Bank's lending strategy in the eighties. The institution-building process will be pursued further although substantial progress has already been achieved in this area. The significant maturity attained in the Korean financial sector, partly as a result of the Bank's assistance in strengthening institutional capabilities, makes it possible for the Bank to shift its lending objectives from microinstitutional issues to broader sectoral issues.

2.41 The recent Bank loans to KDB and KLB were predicated on such a broad-based, macro-economic approach. The two loans provided a vehicle for discussing with the Korean Government the blue print of a major reform of the financial sector aimed at liberalizing the operations of financial institutions. It is expected that the agreements reached at the time of negotiation of these two projects will ultimately improve the responsiveness of the

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/1 KDFC was renamed the Korea Long Term Credit Bank (KLB) in 1980.

financial system to the requirements of Korean industry and will help improve investment efficiency. The Bank's dialogue with the Government on financial sector issues has been proceeding in parallel with a greater involvement in the formulation of a development strategy for the industrial sector which would bring about the structural adjustments necessitated by the changing environment in which Korean industry operates. The Bank plans to discuss with the Government the broad question of industrial investment strategy and incentives in industry in the context of the Bank's economic and sector work program.

2.42 Structural adjustment lending and financial sector loans provide the vehicles for a closer involvement by the Bank in the moulding of Korea's financial and industrial sector developments. The strategies and policy measures adopted by the Government in both sectors at a macroeconomic level are expected, over time, to eliminate gradually distortions in factor prices and policies at the subsector level. In the interim, concerted action may be required in specific subsectors facing difficulties or in areas where new products and technologies are being developed. The Bank's macro-based lending strategy may therefore need to be complemented by a direct involvement in the restructuring and/or rehabilitation of specific subsectors. The Bank is currently considering subsector projects for technology development and for the support of engineering industries which would emphasize skill development in Korean industry. The proposed loan to SMIB is designed as a subsector operation which supplements other efforts in the industrial sector by improving the efficiency of enterprises at the lower end of the industrial spectrum.

### 3. THE SMALL AND MEDIUM INDUSTRY BANK

#### A. The Role of SMIB in the Financial System

3.01 The Korean financial system is highly specialized. It comprises: (a) banking institutions which along with the (central) Bank of Korea (BOK) form the monetary system; and (b) nonbank institutions which, unlike banking institutions, do not mobilize deposits from the general public.

3.02 Banking institutions comprise mainly the commercial banks (39% of total assets in the financial sector in 1979) and six specialized banks which mobilize and allocate funds to specific sectors of the economy (e.g., small-scale industry and agriculture). The specialized banks accounted for 23% of the assets of the financial sector in 1979. The operations of specialized banks can best be characterized as a mix of commercial banking operations (i.e., short-term working capital lending) and development finance (i.e., long-term lending in foreign and domestic currency). SMIB

and CNB are the two specialized banks operating in the SMI sector. Their asset size /1 is comparable and each accounts for about 2.5% of the financial sector's total assets.

3.03 Nonbank financial institutions /2 comprise institutions which specialize in the mobilization of specific types of savings (e.g., insurance and short-term finance companies) and development banks specialized in allocating long-term resources to particular branches of the economy. The Korea Development Bank (KDB) and the Korea Long-Term Credit Bank (KLB) are, among nonbank institutions, the two major sources of long-term finance for large industry.

3.04 The group of commercial banks accounted for about 55% of all incremental lending to the manufacturing sector in 1979. Short-term lending, however, represented 83% of total commercial bank lending over the period 1977-79. Loans with a maturity exceeding one year accounted for the 17% balance, but only part of these loans (about 70%) were supplied by commercial banks for financing equipment purchases. The supply of long-term development finance in support of investment in the Korean industrial sector is practically confined to four institutions: CNB and SMIB for smaller enterprises, KDB and KLB for large industries.

3.05 The functional demarcation among the four DFCs is broadly as follows. At one extreme of the industrial spectrum, the government-owned KDB concentrates on financing large enterprises, public and private, in the manufacturing, transportation and power sectors. Borrowers eligible for financial support from KDB are defined as enterprises whose employment exceeds 300 persons and whose assets are more than W 500 million (\$760,000). Equipment loans accounted for 86% of KDB's loan portfolio at end July 1980. The privately-owned KLB also concentrates on the financing of relatively large, but exclusively private sector firms. /3 Prior to its conversion into a long-term credit bank in June 1980, KLB almost exclusively provided long-term foreign currency financing. It has since increased substantially the level of its domestic currency operations. The government-owned CNB and SMIB specialize in assisting the smaller end of the industrial spectrum. Because short- and medium-term deposits account for

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/1 SMIB's total assets amounted to W 1,256 billion (\$1.9 billion) as of September 30, 1980.

/2 In aggregate nonbank institutions accounted for 25% of the assets of the financial sector in 1979; development banks alone represented 15% of financial sector assets.

/3 Its charter, however, requires that 20% of its lending operations be directed towards the SMI sector.

the bulk of their resources, short- and medium-term lending for working capital accounts for a major share of their total operations. Both, however, are important sources of domestic and foreign currency equipment financing for the SMI sector.

3.06 Despite some overlap in the functions of the four Korean DFCs, demand for industrial financing, particularly for equipment finance, far exceeds available resources so that the four institutions and the commercial banks operate in a complementary rather than a competitive fashion.

3.07 The SMIB Act confines SMIB's financing to "small and medium enterprises" as defined in the Presidential Decree enforcing the Act. Since 1976, eligible borrowers are defined as enterprises with either total assets not exceeding W 500 million (\$760,000) or with less than 300 employees. These two upper limits constitute the official demarcation between SMIB and KDB; if an enterprise qualifies as an SMI under either or both of these limits, it is eligible for borrowing from SMIB, not from KDB.<sup>/1</sup> CNB is allowed to finance enterprises with 5 to 100 employees with no upper limit imposed on the asset size of potential borrowers. Such enterprises can, therefore, obtain financing from either CNB or SMIB. This overlap in the clienteles of CNB and SMIB was intended to improve the access of very small enterprises to institutional financing. In practice, CNB concentrates on the informal/cottage industry segment of SMI while SMIB operates mostly in the organized, modern subsector.

3.08 Although the criteria used in the definition of SMIB and KDB's respective clientele appear to be clear, in practice, the interface between the two is somewhat fuzzy for a number of reasons. First, the asset and employment sizes of SMIB's borrowers are determined at the time of loan application, so that applicants which are close to the limits of the SMI definition can virtually exceed the eligibility criteria as soon as they receive a loan. In recognition of this inherent contradiction, a revision of the SMIB Act was approved by the Government in February 1980 which stipulates that clients of SMIB who, in the course of transactions with SMIB came to exceed the eligibility criteria may remain clients of SMIB for a period of 3 years.<sup>/2</sup> Second, the SMI Promotion Law enacted in 1979 raised to 500 employees (with no asset limit) the cut-off point between SMI and large industries for specific activities in the manufacturing sector (e.g.,

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<sup>/1</sup> An additional lower limit of 5 employees is imposed on the size of applicants eligible for assistance from SMIB.

<sup>/2</sup> The arbitrary 3-year period, however, remains inadequate for borrowers of long-term equipment loans.

automobile and bicycle parts, hand tools, watches, etc.)/<sup>1</sup> As the onlending agent of the proceeds of the SMI Promotion Fund, SMIB is, therefore, led to financing enterprises which would otherwise qualify as large industries. Third and more importantly, former SMIB borrowers which outgrow the eligibility criteria for SMIB financing are often not able to obtain financing from KDB. This results from KDB's basic role as financier of priority activities as defined in the KDB Act (i.e., power, coal, mining, shipbuilding, iron and steel, semiconductors, marine and air transportation). Although KDB is not precluded from financing light industrial activities, its resources are limited and are effectively preempted by heavy industrial projects. Former SMIB borrowers are, therefore, compelled to turn to the commercial banks for further financial assistance. This also entails considerable difficulties as commercial banks emphasize working-capital financing and provide little financing for equipment purchases. The emergence of KLB as a major source of domestic and foreign currency equipment loans may help solve this problem in the future, as would an increased commercial bank role in equipment financing./<sup>2</sup> It is clear, however, that at present the highly fragmented nature of the Korean financial system effectively acts as an impediment to the upward mobility of SMIs.

## B. Institutional Aspects

### Legal and Policy Framework

3.09 Legal Framework. The Small and Medium Industry Bank (SMIB) was incorporated under the Small and Medium Industry Bank Act of 1961. SMIB is a government-owned /<sup>3</sup> banking institution specialized in extending financial and technical assistance to small- and medium-sized industries. As a banking institution, it is engaged in a wide range of commercial banking activities including mobilization of deposits, issuance of letters of credit and short-term lending for working capital. As a development institution, it provides long-term finance to its borrowers and has thus become a key

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/1 The law also stipulates a minimum size of 50 persons and W 100 million in total assets for SMIs to be eligible for financing under the SMI Promotion Fund.

/2 The latter alternative is currently being studied by the Government as part of the financial sector reform.

/3 Except for residual private holdings of W 16 million (0.03% of SMIB's end-1980 share capital) which were incorporated in its share capital at the time of establishment.



tool for fostering SMI development in Korea. The SMIB Act, the Presidential Decree enforcing the Act and the SMIB By-Laws constitute a comprehensive legal framework for SMIB's organization, policies, operations, administration, and capitalization. Like other specialized banks and development institutions, SMIB's operations, financial performance and management are subject to the close supervision of the Ministry of Finance. The General Banking Act which is administered by the Bank of Korea governs SMIB's commercial banking activities.

3.10 Board of Policy and Board of Directors. The SMIB Act provides for a Board of Policy and a Board of Directors; SMIB's President serves as Chairman of both. The Board of Policy comprises government officials and representatives of the SMI sector selected by the Government (Annex B, Appendix 1); its primary function is to formulate lending policies and guidelines. The Board of Directors is a standing body of SMIB's senior management (Annex B, Appendix 2) with executive authority on important matters related to SMIB's operations. SMIB's dual Board structure has proved to be appropriate and effective. It allows the Government and the SMI business community to participate in the formulation of lending policies and ensures SMIB's autonomy in day-to-day operational decisions, and adequately provides continuity in administration and decision-making.

3.11 Operating Policies and Development Strategy. In 1969, SMIB's Board of Policy adopted a Policy Statement which supplements the policy and operational guidelines of the SMIB Act. Aside from restrictions on the maximum exposure of SMIB in any single enterprise,<sup>/1</sup> this statement defines in broad terms, the types of industries to which SMIB should give priority in its lending operations (i.e. export-oriented and import substituting industries as well as labor-intensive projects).

3.12 Since 1975, SMIB has formulated, in consultation with the Bank, three successive Development Strategy Statements outlining its specific developmental objectives for two-year periods of operations. These statements show a considerable degree of continuity in SMIB's objectives such as improving the geographical and sectoral dispersal of operations, promotion of small and labor-intensive projects, encouraging subcontracting arrangements, and improving resource mobilization. Beyond this, the strategy for 1980/81 calls for SMIB actively to assist the machinery subsector and strengthen its research activities, with particular emphasis on sector and market studies (Annex B, Appendix 3). Satisfactory progress has been made by SMIB in implementing past objectives. In response to the need for SMIB to diversify its domestic and foreign currency long-term resources (paras. 3.55 and 3.61), SMIB agreed to amend its Development Strategy Statement for 1982-83 to reflect to this requirement (Annex B, Appendix 4).

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<sup>/1</sup> 25% of its own equity and 60% of the client's total assets.

### Institutional Efficiency

3.13 Management. Mr. Sun Sang Park, formerly SMIB's Deputy President, was appointed President in July 1980. He is assisted by a Deputy President, and five Executive Directors, each in charge of three to four of SMIB's 18 departments. SMIB's top management team, as well as the managers and deputy managers of the departments and branch offices, have considerable professional experience and provide SMIB with effective leadership.

3.14 Organization and Staffing. SMIB's head office in Seoul comprises 18 departments (see organization chart). With the aim of mobilizing deposits and spreading its services more evenly over the country, SMIB has rapidly expanded its branch network from 65 in mid-1977 to 116 in 1980. Loan processing, including approval authority for loans below certain amounts /1 is delegated to the branches. In October 1980, SMIB opened a representative office in New York and plans to open similar offices in other international financial centers. Such offices might ultimately play an important role in mobilizing foreign currency commercial resources.

3.15 In September 1980, SMIB's staff numbered 4,815, of which 24% were senior professionals. Branch personnel accounted for 74% of total staff. During the past 21 months, staff strength has increased by 19% and is projected to increase by 33% to 6,380 by end-1984 (Annex B, Table 1). Staff turnover /2 for the institution as a whole was 7.6% in 1978 and 1979 and declined to 6.4% (on an annual basis) during the first 9 months of 1980. The turnover of professional staff was lower (4%) and involved only a small number of key personnel (deputy managers and above). It had no discernable impact on SMIB's operational efficiency.

3.16 Administrative expenses. SMIB's expanding branch network and staff strength have contributed to a rapid increase in its administrative expenses. In relation to its average total assets, however, SMIB's administrative expenses have remained at about 3% to 3.5%. Wages and salaries accounted for an average of 73% of total administrative expenses over the period 1977-79. SMIB estimates that, in 1979, administrative expenses related to deposit mobilization accounted for 2.3% of the average annual deposit balance /3 and administrative costs related to lending

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/1 \$100,000 for foreign currency loans and W 50 million for domestic currency loans.

/2 Resignations, other than mandatory retirements to average number of staff during the year.

/3 Including reserve requirements, total mobilization costs add about 3.9% to the average interest cost (13.5%) of SMIB's deposit resources.

Korean commercial banks. Expenses related to lending operations are also on par with those of other Korean DFCs /1 and reflect a satisfactory degree of efficiency in SMIB's operations.

3.17 Training. SMIB's professional staff is mostly recruited among college graduates trained through external and in-house courses /2 as well as a system of rotational assignments within SMIB. While the qualification of staff appears to be generally good, training programs are largely confined to commercial banking techniques. There is a clear need for intensified training in the more sophisticated techniques of subsector economic analyses and project evaluation. During negotiations for the proposed loan, SMIB presented to the Bank for its review, its ongoing staff training program for 1981 which is designed to: build up the capability of its staff, particularly at the branch level, in subsector economic analysis and project appraisal through intensified internal training; and to provide an increased number of staff with external and overseas training courses on project appraisal. The 1981 training program proposes to provide such training opportunities for 866 of SMIB's professional staff (20% of the total professional staff), 97% of whom will be branch staff.

3.18 Project Appraisal. Most loan applications are processed through the branches. Throughout the appraisal process, branch and head office staff coordinate work closely with the latter operating in an advisory capacity. For working capital loans, SMIB's lending decisions are essentially based on an assessment of the client's credit standing and on available collateral, rather than on project analysis, a practice in line with sound commercial banking. An elaborate point scoring system serves as the basis for the lending decision. Scoring is also used for the preliminary screening of applications for equipment loans.

3.19 SMIB, like most other Korean DFCs, applies different appraisal standards in the processing of domestic and foreign currency equipment loans. The procedures applied in the appraisal of domestic currency equipment loans are heavily influenced by commercial lending practices: quick financing decisions in favor of solvent clients tend to outweigh considerations on the financial and economic viability of projects. Time consuming techniques of technical, market, financial and economic analysis are kept to a minimum. This results largely from the fact that the terms (lending rate, duration and maximum amount) of domestic currency loans are predetermined by the Government on the basis of the project's assumed priority, not on the basis of projected cash flow, repayment capacity and

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/1 About 1% of average total assets.

/2 In 1979, training courses have been organized for 1,035 staff members; 845 received in-house training with emphasis on credit analysis, 96 received training from outside institutions, and 94 underwent overseas training.

benefits. This type of government control and interference in lending decisions effectively makes detailed project analysis a somewhat artificial and irrelevant exercise. Some improvement in the appraisal standards of Korean financial institutions may occur in the future when the Government implements its new policy of liberalizing the operations of the financial sector. There is considerable scope in Korea for improving the efficiency of financial institutions in the appraisal of investment proposals since demand for credit has traditionally exceeded available resources. The process of improvement in credit rationing mechanisms will obviously take time. A clear implication is that financial institutions will have to move away from the bureaucratic approach of the past and considerable investment will be required in staff training. As indicated in para. 3.17, SMIB is already taking steps to improve the appraisal capabilities of its staff. As the quality of its appraisals of foreign currency loans is markedly better than its appraisal of domestic currency loans, staff training will focus on improving the latter.

3.20 The appraisal quality of foreign currency loans is markedly better than for domestic currency loans. Full appraisal reports including computation of financial and economic rates of return are submitted by SMIB for subprojects exceeding the free limit imposed by ADB and IBRD (\$500,000). Despite the limited number of subprojects for which SMIB has submitted full appraisal reports to the Bank /1 under loan 1749-K0, the quality was satisfactory. The appraisal standard of projects below the free limit is understandably lower, reflecting the difficulty of striking a balance between efficiency in processing a large number of applications and quality.

3.21 Under the second and third Bank loans, it was agreed that SMIB should speed up the processing of subprojects below the free limit by simplifying its appraisal methods and submitting to the Bank project summaries instead of full appraisal reports. Simplified appraisal methods were considered appropriate as long as this had no negative impact on the economic and financial quality of the projects financed by SMIB. To this end, it was agreed /2 that SMIB's Research Department would undertake sector and subsector studies to justify sectoral priorities and prospects with such analysis substituting for a detailed economic appraisal of individual projects. It appears, however, that the sector work carried out by SMIB's Research Department is not sufficiently integrated in SMIB's appraisal process. Furthermore, the recent economic downturn has substantially eroded profitability in several branches of the industrial sector and closer scrutiny of investment proposals seems to be justified. During negotiations, SMIB confirmed through an amendment in its Development Strategy

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/1 Six out of 250 subprojects.

/2 Paragraph (g) of SMIB's Development Strategy Statement for 1980-81.

Statement (Annex B, Appendix 4), that it will continue to strengthen its research activities, placing particular emphasis on sector and market studies for SMI. In an attempt to more consistently apply the findings of these studies directly to its operations, SMIB will take the measures necessary to increase the coordination between its research and project appraisal departments.

3.22 The training program presented to the Bank by SMIB at negotiations (para. 3.17) in combination with improved coordination between SMIB's research and project appraisal departments (para. 3.21) would increase the proficiency of SMIB's staff in appraisal techniques and should result in improved appraisal work throughout the institution. In addition, the Bank informed SMIB during loan negotiations that, in the course of Bank supervision, specific attention will be given to the thoroughness of appraisal reports on subprojects below the free limit. Project supervision would involve reviewing a randomly drawn sample of reports from each of four subsectors where currently some difficulties are being encountered. These are, provisionally, machinery, foodstuffs, wood products and textiles. The Bank would also expect to receive copies of sector work carried out by SMIB's Research Department in these four subsectors.

3.23 Project Supervision. Project follow-up is largely delegated to the branch offices, except for foreign currency loans which are supervised jointly by the Foreign Loan Department at head office and the branches. Projects under supervision are normally visited at least once a year; projects with loans above W 50 million and problem projects are visited more frequently, in some cases once a month. Branch staff have frequent contacts with borrowers, who usually maintain deposit accounts with SMIB, and are therefore well placed to diagnose implementation and operational problems at an early stage. The branch managers have received some training in basic managerial and financial consultancy services. More complex problems are referred to the Extension Services Department at head office and, in some cases, to the Korea Institute of Science and Technology (KIST). SMIB has developed an excellent follow-up reporting system.<sup>/1</sup> Follow-up record cards are kept for each subproject and allow periodic analysis of projected versus actual project data. The Investment and Credit Analysis Department also visits clients once a year and prepares detailed reports on their credit standing. SMIB's project supervision methods have been very effective, as is reflected in the quality of its portfolio and the low level of arrears.

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<sup>/1</sup> The Foreign Loan Department has developed, in consultation with the Bank, an independent System of Operation Report Summaries whereby actual project performance is compared with projected operations prepared at the time of appraisal. A population of 223 subprojects has been covered in two annual exercises covering projects implemented in 1976 and 1977. A third batch of projects implemented in 1978 is under preparation. Results show that appraisal estimates of sales volume and capacity utilization were fairly accurate with a standard deviation of less than 5%.

3.24 Procurement. SMIB's procurement procedures conform to government guidelines and to the special requirements of small firms. Until 1978, international competitive bidding procedures were applied for some of the larger projects requiring foreign currency loans. Because of the large number of subprojects, these procedures were considered expensive and time consuming. Procurement is now normally based on limited competitive bidding procedures with three to four competitive quotations from potential suppliers. In some cases, however, SMIB has been following procurement procedures which aimed at expediting procurement but which did not ensure a satisfactory degree of competition. In addition, as SMIB plans to place increased emphasis on financing fixed investments in order to improve the productivity and quality of output of small and medium industries, it will have to give increased attention to ensuring the adequacy and effectiveness of its procurement procedures. To this end, it was agreed at negotiations that in order to foster competition among supplies, each subborrower would be required to obtain at least three quotes from suppliers. Furthermore, all appraisal reports for subprojects sent to the Bank for approval would contain a paragraph describing the procurement procedure to be followed and justifying any deviation from the required numbers of bids. For subprojects above the proposed free limit (\$500,000), the suitability of applying ICB procurement procedures would be reviewed and SMIB's decision not to enforce ICB procedures would need to be fully justified.

### C. Operations and Efficiency in Resource Allocation

#### Overview of SMIB's Operations

3.25 Because of the diversified mix of its resources, SMIB is in a position to offer to its clients a fairly complete package of financial services which comprises working capital loans, overdrafts, discounting of trade bills, operation of deposit accounts, equipment loans in domestic and foreign currency and other general banking services. In addition, it also provides nonfinancial supporting services to SMIs, albeit on a limited scale. SMIB's portfolio comprised over 20,000 clients as of end September 1980, or approximately two thirds of all enterprises operating in the SMI sector. Total outstanding loans amounted to W 906.9 million (\$1.4 billion) of which 67% were working capital loans and 33% equipment loans.

3.26 Equipment Loans. As of September 30, 1980, SMIB's outstanding portfolio of long-term equipment loans amounted to W 300 billion (\$461.5 million) and accounted for 33% of the total loan portfolio. The share of equipment loans in SMIB's portfolio has declined steadily from 38% in 1978, to 35% and 33% respectively at year-end 1979 and end-September 1980. This relative decline resulted primarily from a slow growth of foreign currency equipment loans relative to total lending,<sup>/1</sup> a recent phenomenon which affects all the Korean financial institutions involved in term lending. This trend is accompanied by a higher demand for long-term domestic currency financing as the Korean machinery industry develops and becomes increasingly

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<sup>/1</sup> From 22.1% of total loan portfolio in 1978 to 17.9% in 1980.

capable to satisfy the domestic market. SMIB's domestic currency equipment lending, however, has not been growing as fast as could have been expected. Domestic currency equipment loans have declined marginally from 15.9% of SMIB's total loan portfolio in 1978 to 15.2% at end-September 1980 (Annex B, Table 2).

3.27 Based on the average composition of assets in the SMI sector, foreign currency expenditures (direct and indirect) can be estimated at about one third of fixed assets. One should consequently expect a ratio of 2:1 in SMIB's domestic currency equipment lending relative to foreign currency. SMIB has moved in this direction in recent years with domestic currency loans increasing their share of total approvals of equipment loans from 54% in 1978 to 63% in 1980. The shorter maturity of domestic currency loans,<sup>/1</sup> however, translates into a higher share of foreign currency loans in the outstanding portfolio (53% over the period 1978-80). In order to better meet the demand for equipment financing in the SMI sector, SMIB needs to increase substantially its domestic currency financing while also lengthening the maturities of such loans. Resource availability being a major constraint in achieving this objective, the Bank discussed with SMIB at negotiations the possibility of increasing the mobilization of medium- to long-term domestic resources such as debentures (para. 3.59).

3.28 SMIB's approvals of equipment loans have been growing rapidly in the period 1978-79 with an average increase of over 55% p.a. in nominal terms, about 35% p.a. in real terms. Up until 1979, the growth in SMIB's lending was largely a function of resource availability; in 1980, however, the severe economic recession caused a substantial decline in investment demand and in the volume of SMIB's approvals of equipment loans. In nominal terms, domestic currency equipment loans reached only 66% of 1979 approvals;<sup>/2</sup> approvals of foreign currency equipment loans amounted to \$41 million, only 43% of 1979 approvals (\$94.8 million).

3.29 Working Capital Loans. Working capital financing (loans, overdrafts and bill discounting) accounts for an increasing part of SMIB's operations. Net approvals of working capital loans which accounted for 49% of total loan approvals in 1978 rose to 58% in 1979 and 77% in 1980. Discounting of commercial bills (17% of SMIB's working capital portfolio at end September 1980) is financed through the Bank of Korea's rediscounting facility. Overdrafts and working capital loans (respectively 4% and 79% of the working capital portfolio) are financed from SMIB's deposit resources. SMIB's working capital portfolio has increased by 46% p.a. in the period 1978/79 and by 38% in the first 9 months of 1980.<sup>/3</sup> The positive real

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<sup>/1</sup> 7.5 years on average for foreign currency loans committed in 1978-79 as against 5.5 years for domestic currency equipment loans.

<sup>/2</sup> 51% in real terms (adjusted by GNP deflator); with 1980 figures adjusted on annual basis.

<sup>/3</sup> Respectively 26% and 6% in real terms.

growth in SMIB's working capital portfolio in 1980, in sharp contrast with the negative growth recorded in equipment financing, resulted from a substantial build up of inventories in industry. Over the past three years, short-term working capital loans have retained a share of approximately 80% of SMIB's total portfolio of working capital loans. The average turnover in SMIB's working capital portfolio is 7 weeks.

3.30 Guarantee Operations. SMIB issues short-term guarantees against trading documents and payment of import duties as part of the commercial banking services provided to its borrowers (Annex B, Table 3). As of September 30, 1979, short-term guarantees accounted for 99% of SMIB's total outstanding guarantee portfolio (W 15.1 billion). Only two long-term guarantees were outstanding for W 0.2 billion./1

3.31 Equity Operations. The Government is planning to establish an independent venture capital company authorized to subscribe to stocks and debentures of SMIs established as joint-stock companies. In the interim, SMIB and the Guarantee Fund have been required to operate investment departments. Operational guidelines have been issued by the Government and SMIB was expected to earmark W 10 billion in 1980 and W 20 billion in 1981 for such operations. Start-up has now been postponed to 1981. The desirability of SMIB engaging substantial manpower resources into equity investment operations is doubtful given the limited demand in the SMI sector for this type of assistance. There are good prospects, however, for SMIB to take an active role in debenture subscription since this type of financing operations is similar to term lending and SMIB already has the necessary expertise.

3.32 Extension Services. Shortly after its establishment, SMIB started providing technical assistance to SMI enterprises, initially limiting its services to managerial guidance. The scope was subsequently expanded to include technological consultancy. SMIB received substantial assistance from the UNDP/ILO between 1968 and 1974 in order to build up its capability. An Extension Services Department (ESD) was established, its staff trained, extension manuals written, and SMIB was thereafter in a position to provide managerial, financial and technical consultancy services to SMI enterprises in Korea (not restricted to SMIB clients). The scope and quality of services provided by SMIB has since declined substantially.

3.33 The ESD, at present, numbers a total of 32 professionals of whom 29 are engineers and 3 are trained in managerial guidance. Only seven persons work exclusively on extension services; the others are in charge of appraising collateral and analyze the technical aspects of loan applications. The ESD provides on-site and written consultancy services primarily on technical problems encountered by client firms in ceramics, textiles, machine tool and electric/electronics industries. In addition, the ESD conducts professional seminars and publishes a technical newsletter. SMIB

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/1 Long-term guarantee are issued for clients borrowing from other financial institutions and whose collateral is pledged to SMIB.



presently does not charge any fee for its consultancy services. Extension assistance has declined discernibly in recent years. In-plant consultancy cases have decreased from 155 in 1978 to 46 in 1979 and 30 in the first half of 1980. SMIB is aware of the deficiencies of its extension services and it plans to set up a separate unit exclusively for extension work; in addition to the seven extension officers mentioned above, the unit would be reinforced with 8 additional engineers and 2 managerial specialists. The desirability of an expansion of SMIB's role in the provision of technical assistance, particularly in the field of production technology where financial institutions usually have difficulties attracting people of the right caliber, is to be reviewed in the context of the study of extension services for SMI agreed upon with the Government during negotiations (para. 2.15).

#### Efficiency in Resource Allocation

3.34 SMIB's efficiency in allocating its loanable resources is measured in the following discussion in terms of its ability to fulfill government objectives in the SMI sector, namely, promotion of manufacturing enterprises in priority subsectors (e.g. machinery), export orientation, geographic dispersal of investment and promotion of small-scale, labor-intensive projects.

3.35 Sectoral Distribution. The manufacturing sector accounted for 91% of SMIB's total outstanding loan portfolio as of September 30, 1980 and for 97% of all equipment loans outstanding. The higher proportion of working capital loans outstanding in nonmanufacturing activities relative to equipment loans (12% compared to 3%) reflects the greater working capital requirements of the service and construction subsectors. Within manufacturing, textiles and machinery were the two dominant subsectors accounting respectively for 31.1% and 30.1% of outstanding equipment loans. In 1980,<sup>/1</sup> however, SMIB's commitments to the manufacturing sector declined to 90.7% of total commitments of equipment loans compared to 97.7% in 1979. Construction and transportation increased their share considerably from 1.7% of total commitments of equipment loans in 1979 to 8.2% in 1980 (Annex B, Table 4).

3.36 The share of textile projects in SMIB's commitments has declined steadily from 45% of total equipment loans to the manufacturing sector in 1976 to 28% in 1977, 21.6% in 1979 and 19.6% in 1980. SMIB's lending to textiles had traditionally exceeded the share of this subsector in SMI manufacturing investment (about 16% in 1978-79). The remaining emphasis on this subsector reflects the priority placed by SMIB on the promotion of export-oriented, labor-intensive industries in accordance with its policy and strategy statements, although recently, there has been a trend towards

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<sup>/1</sup> All figures for 1980 relate to the period January-September only.

more capital intensity of investment in textiles./<sup>1</sup> The share of machinery industries has increased from 29% in 1976 to 36% in 1980 as a result of SMIB's deliberate policy to support a subsector which has been singled out by the Government as a high priority area with a key role in deepening Korea's industrial structure. Likewise chemicals have increased from 9% in 1976 to 15% in 1980. SMIB's exposure in the sectors of machinery and chemicals is in line with the share of these subsectors in SMI fixed capital formation.

3.37 Geographic Distribution. In accordance with the objectives set in its Development Strategy Statements, SMIB has achieved reasonable success in diversifying the geographic distribution of its operations. The share of commitments to projects in Seoul City has declined marginally from 33% of equipment loans in 1978 to 31% in 1980; similarly Pusan City has declined from 16% to 6%. With the aggregate share of these two urban areas having declined from 49% to 37%, SMIB has reached its goal of limiting to 45% the share of Seoul and Pusan in total lending./<sup>2</sup> This decline has been compensated by a significant increase in SMIB's lending to the Kyong Gi Province which surrounds Seoul from 18% in 1978 to 27% in 1980. SMIB's lending outside these three major industrial areas has marginally increased from 33% to 36% during the same period. According to its Development Strategy Statement for 1982-83 (Annex B, Appendix 4), SMIB intends to further increase its lending outside these three areas to 40% by 1983. Despite some scope for a further diversification of lending outside the Seoul area, SMIB's operations are broadly in line with the regional distribution of SMI fixed investment./<sup>3</sup>

3.38 Assistance to Smaller Enterprises. The trend towards an increase in the employment size of SMIB's borrowers which had been observed over the period 1976-78 has been reversed in the past two years. The share in total commitments of borrowers with more than 300 employees has declined from 10.7% in 1978 to 1.8% in 1980. Concurrently, the share of enterprises with less than 100 employees has increased from 43% to 55%. The large share of smaller firms (with less than 100 employees) in total lending shows that SMIB, along with CNB, plays an important role in financing this segment of the SMI sector. In terms of asset size of borrowers, the trend is upwards with the weighted average increasing from W 260 million in 1978 to W 370 million in 1980. This 42% increase in the average asset size of borrowers

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/1 Data on textile projects financed by SMIB still show a degree of export orientation higher than average but the average fixed investment cost per job created in the 35 projects financed by SMIB (through end September 1980) under the third Bank loan was W 10.3 million compared to an overall average of W 9.1 million.

/2 Seoul and Pusan still accounted for 48% of outstanding portfolios as of September 30, 1980, reflecting the past bias in SMIB's lending.

/3 (Seoul 18%, Pusan 14% and Kyong Gi Province 22% in 1977)

was however lower than inflation during that period and therefore represented a decline in real terms. In contrast to 1978, when the asset size of foreign exchange borrowers was nearly twice as large <sup>/1</sup> as that of domestic currency borrowers, the differential was only 20% in 1980 because of a stagnation in the asset size of foreign currency borrowers.

3.39 These trends are also reflected in the average size of SMIB's domestic currency equipment loans which increased from W 17.4 million in 1978 to W 56.1 million in 1980 and in foreign currency equipment loans from W 97.3 million (\$200,000) in 1978 to W 129 million (\$206,000) in 1980. The rapid increase in the average size of domestic currency loans resulted from a relaxation of the ceilings imposed by the Government on the size of loans. No such ceiling exists on foreign currency loans; <sup>/2</sup> the stagnation in the average size of foreign currency loans reflects a deliberate effort on SMIB's part to channel funds to smaller borrowers.

3.40 Employment Creation. Data on the employment impact of SMIB financing are only available for projects which received foreign currency equipment loans (Annex B, Table 5). <sup>/3</sup> It is estimated that, over the period 1978-80, such projects directly created about 15,000 jobs at an average fixed investment cost per job of \$15,100. The average fixed investment cost per job created has increased rapidly from \$8,900 in 1977 to \$17,420 in 1979 <sup>/4</sup> as a result both of inflation and of the higher capital intensity of investment in Korea. Despite this trend, the average cost per job created is only about one third of the projects financed by KDB and KLB at the larger end of the industrial spectrum.

3.41 Annex B, Table 6 shows that the average fixed investment cost per job created for subprojects financed under the third IBRD loan was approximately \$17,460. This average, however, conceals considerable differences in the ratios of individual projects financed by SMIB. Specifically, SMIB was required to earmark a \$25 million component out of the third Bank loan for financing small, labor intensive projects defined as (a) enterprises with fixed assets not exceeding \$300,000 or (b) projects generating employment at a fixed investment cost per job not greater than \$8,500. By end-1980, this objective had been substantially exceeded with 198 subprojects (out of 273) qualifying under the above criteria and with \$32.2 million earmarked out of total loan approvals of \$54.3 million.

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<sup>/1</sup> W 350 million as against W 180 million.

<sup>/2</sup> Except for that imposed by lending agencies (\$1.5 million under the third IBRD Loan).

<sup>/3</sup> A number of these projects also received domestic currency loans.

<sup>/4</sup> The same ratio for 1980 shows a marginal (7%) increase in the Won value of investment cost per job.

3.42 Contribution to Exports. Over the period 1973-76, the incremental exports of projects receiving foreign currency loans was estimated at about 55% of sales. This ratio has declined steadily since 1977 and reached only 12% in 1979; in 1980, it increased to 25%. This degree of export orientation is lower than national aggregates which show the SMI sector accounting for about 40% of manufactured exports; national figures however include direct exports by manufacturers and indirect exports under subcontracting arrangements. Data on SMIB financed projects show that the proportion of SMI enterprises involved in direct export sales has declined and is increasingly limited to companies exporting more than 50% of their output./1 Enterprises with a lower degree of export orientation increasingly market their products through trading firms and larger industrial companies. Although SMIB does not record export sales under subcontracting arrangement, it does finance an increasing number of SMIs with linkages to larger, export-oriented industries. Despite the apparent decline in its financing of direct export-oriented projects, SMIB's support of exporting SMIs is satisfactory.

D. Financial Position and Efficiency in Resource Mobilization

Financial Structure and Performance

3.43 Asset Structure. SMIB's balance sheets for the years 1976 through 1980 /2 are summarized in Annex B, Table 7. As of September 30, 1980, total assets amounted to W 1,256.6 billion (US\$1.9 billion) following a steady growth averaging 38% p.a. since 1976, well above the average annual rate of inflation of about 20%. Current assets have retained a share of about 66% of total assets over the past three years. SMIB's long-term portfolio accounted for about one-third of total assets over the period 1978-80. SMIB's total loan (short and long-term) portfolio has increased from 62% of total assets in 1978 to 72% as of end-September 1980, as a result of the rapid growth in working capital loans (from 39% of assets in 1978 to 48% in 1980).

3.44 Liabilities and Equity. Of SMIB's total assets at end-September 1980, 61% were financed by current liabilities (46% by short-term deposits), 31% by long-term liabilities, and 8% by equity./3 This composition of SMIB's

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/1 Companies exporting over 50% of their output accounted for 60% of SMIB's lending to export oriented enterprises in 1978-79 and 82% in 1980.

/2 The 1980 balance sheet is prepared as of September 30, 1980 and is unaudited.

/3 The part financed by equity appears higher than in previous years (3% in 1979) because of the high undistributed earnings shown in the interim balance sheet as of September 30, 1980.

resources has remained largely unchanged over the past three years. The importance of demand and savings deposits in SMIB's total resources has declined marginally from 64% of total assets in 1978 to 61% in 1980 but their composition is unchanged with 75% short-term and 25% long-term. SMIB's aggregate long-term liabilities have remained at about 33% of total assets over the period 1978-80, with savings deposits accounting for 50%, foreign currency borrowings for 32%, and government resources (such as NIF and SMIPF) for 18%./1

3.45 As of December 31, 1980, SMIB's paid-in capital amounted to W 57.1 billion compared to W 27.1 billion at end-1979. Regular annual contributions to SMIB's share capital /2 have been made by the government since 1976 in accordance with an understanding reached under the first Bank loan to provide SMIB with additional equity capital as needed to maintain its long-term debt/equity ratio within the limit of 10:1 without constraining its ability to raise long-term resources. SMIB's long-term debt/equity ratio which stood at 9.2:1 at end-1979 had declined to 5.2:1 at end-1980. The total debt/equity ratio also declined from 29.9:1 in 1979 to 19.1:1 at end-1980 which is not excessive for an institution heavily involved in commercial banking and deriving a large part of its resources from deposits. The current ratio has remained somewhat above one since 1976, which is satisfactory. SMIB's short-term liquidity is controlled by the BOK's reserve requirements and is under the supervision of the Superintendent of Banks. SMIB's debt service coverage ratio was 1.12 in 1979 and 1.22 in 1980, which is adequate.

3.46 Earnings Performance. SMIB's income, cash flow statements and indicators of financial performance are summarized in Annex B, Tables 8 and 9. Interest income on loans outstanding accounted for about 80% of SMIB's gross income over the period 1978-80; fees and commissions provided the balance. Income from equipment loans accounted for an average of 25% of SMIB's total interest income, substantially less than the 33% share of equipment loans in total loan portfolio. This results from the lower nominal interest rate charged on foreign currency loans relative to domestic currency loans./3 SMIB's net income totaled W 1.1 billion in 1979 and W 8.9 billion in 1980. SMIB's profitability has been modest in 1978-79 with net income representing only 0.1% of average total assets; it has increased substantially in 1980 as a result of the higher interest spread brought about by the changes in Korea's interest rate structure (para. 2.34). Net

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/1 It should be noted however that KFX funds borrowings although classified as current liabilities are used to finance long-term loans.

/2 A further contribution of W 50 billion is expected in 1981.

/3 Interest income on foreign currency loans was 8.2% of total interest income in 1980 compared to the 18% share of these loans in SMIB's total loan portfolio.

income as a percentage of equity has increased from 3.3% in 1978 to 3.6% in 1979.<sup>/1</sup> Administrative expenses have been kept under control and actually show a satisfactory decline relative to total assets (from 3.3% in 1978 to 3.1% in 1979). SMIB is required to pay dividends on the share capital subscribed by the Government at the rate of one percent of outstanding subscriptions. The dividend payout ratio was 22% of net profits in 1979.

3.47 Quality of Portfolio. SMIB's loan collection performance and arrears position are summarized in Annex B, Tables 10 and 11. The portfolio of SMIB is of unusually good quality considering that the institution operates in the high risk small and medium business sector, and that its portfolio comprises some 20,000 clients with 77,500 accounts outstanding. As of September 30, 1980, 642 clients were in arrears with overdue payments of principal and interest amounting to W 22.8 billion; 51% of that amount had been in arrears for less than 3 months and only 9% for more than 12 months. Total arrears accounted for 2.5% of total outstanding loans, a slight deterioration compared to 1.6% and 1.1% at end 1978 and 1979 respectively. Arrears on long-term equipment loans accounted for 21% <sup>/2</sup> of total arrears and 1.6% of outstanding long-term loans; arrears on working capital loans represented 79% of total arrears and 3.0% of outstanding working capital loans. SMIB's collection performance is highly satisfactory although slightly better for working capital loans <sup>/3</sup> (99.3%) than for equipment loans (92% for domestic currency and 94% for foreign currency loans). Outstanding loans affected by arrears accounted for only 3% of the end September 1980 loan portfolio but this represented a significant deterioration over the end-1978 level of 1.7%. The sectoral distribution of arrears is broadly in line with the sectoral composition of SMIB's loan portfolio. The textiles and machinery subsectors accounted for 57.2% of the portfolio affected by arrears, marginally higher than their aggregate share of 49.7% of the loan portfolio. SMIB has achieved a very satisfactory performance in debt collection while keeping reschedulings to a minimum.<sup>/4</sup> The slight deterioration in the quality of SMIB's portfolio in 1980 resulted from the recession which affected the Korean economy in 1979-80.

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<sup>/1</sup> And 23.7% of equity in 1980 on the basis of provisional accounts.

<sup>/2</sup> Compared to a 33% share of equipment loans in SMIB's loan portfolio.

<sup>/3</sup> The apparent contradiction between collection performance and incidence of arrears comes from the fact that working capital loan collections are in a ratio of 5.5 times to outstanding loans.

<sup>/4</sup> Only three equipment loans have been rescheduled in 1980.

3.48 SMIB's generally good arrears position and collection performance result from its well developed supervision and collection procedures. They are also attributable to the peculiarities of the Korean financial system in which a number of efficiently operating institutions assist banks in minimizing loan losses. This system comprises the Credit Guarantee Fund,<sup>/1</sup> the Loan Readjustment Corporation which processes loan foreclosures on behalf of financial institutions <sup>/2</sup> and a credit information system operated by the Bank of Korea. Finally, SMIB follows the practice of commercial banks in Korea of requiring that borrowers open a savings account when they receive loans. Aside from increasing the resources of financial institutions, this practice allows the transfer of all or part of the deposit balances to cover overdue loan installments. However, the main factor behind the soundness of SMIB's portfolio is the good performance of Korean industry until 1979. The economic slowdown of 1979-80 and the rapid depreciation of the Won in 1980 may result in some deterioration of SMIB's portfolio in coming months.

3.49 Provisions. The SMIB Act requires that 25% of annual net profits be set aside as an equity reserve covering loan losses. Because of the low level of net profits, actual appropriations have exceeded this requirement in the past five years and cumulative reserves amounted to W 4.0 billion at end-1979. At the same time, SMIB makes annual provisions for doubtful accounts on the basis of actual write-offs in the preceding year.<sup>/3</sup> The provision allowance reached only W 383 million in 1979. At end-1979 reserves for loan losses and cumulative provisions reached W 4.7 billion or only 0.7% of the total loan portfolio. SMIB's external auditors, however, considered that this low level of provisions was adequate in view of the satisfactory level of arrears. The recent increase in the incidence of arrears probably justified a higher level of provisions for 1980-81 and SMIB, accordingly, has made a provision allowance of W 6.9 billion in 1980.

3.50 Audit. In 1977, SMIB appointed San Kyong & Company as its new auditors, a company acceptable to the Bank. The 1979 audit report found SMIB's accounts satisfactory but repeated a minor qualification made in previous reports pointing out that the employees' retirement liability had been underestimated.

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<sup>/1</sup> In the first nine months of 1980, SMIB collected W 1.9 billion from KCGF compared to W 1.2 billion in 1979.

<sup>/2</sup> Transfers to the Readjustment Corporation reached W 10.4 billion in the first nine months of 1980 compared to W 4.3 billion in 1979.

<sup>/3</sup> It had been agreed at the time of negotiations of the first Bank Loan that cumulative provisions should be allowed to build up to a level exceeding actual write-offs. SMIB has complied with this requirement until 1977. In 1978, however, provisions were reduced by W 858 million (largely as a means of increasing net income).

### Resource Mobilization

3.51 In the Korean context, where demand for funds exceeds available supply, SMIB's ability to mobilize increasing amounts of foreign and domestic currency resources has been a determining factor of its efficiency as a financial intermediary. SMIB's efficiency in resource mobilization has been very satisfactory over the period 1977-80 with total resources (domestic and foreign) increasing at an average rate of 40% p.a., thus allowing the loan portfolio to grow at approximately the same rate. SMIB's resource position over the period 1978-80 is shown in Annex B, Table 12. The mix of foreign and domestic resources has remained in a ratio of 20:80 which was adequate and was reflected in the share of foreign currency loans in SMIB's loan portfolio.

3.52 As of September 30, 1980, SMIB's total resources amounted to W 1,290 billion (\$1.98 billion) of which domestic currency resources accounted for W 1,039 billion and foreign currency resources for W 251 billion equivalent. The share of long-term resources in total domestic currency resources has remained stable at about 33% over the period 1978-80, reflecting the high proportion of short-term deposits in SMIB's total resources. The weight of short-term funds in total resources effectively constrained SMIB's ability to supply larger amounts of long-term equipment loans. Except in 1978,<sup>/1</sup> SMIB has not undertaken any term transformation of funds whereby short-term resources are used to finance long-term lending operations.<sup>/2</sup> Within the limits of financial prudence, term transformation of part of its short-term resources would allow SMIB to increase its term lending. Even without recourse to using short-term resources, SMIB could increase the share of equipment lending in its total "long-term" <sup>/3</sup> lending operations by reducing the share of medium term working capital operations. Only 51% of SMIB's outstanding "long-term" loans at end September 1980 were for equipment financing with the balance of 49% being medium-term working capital loans.

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<sup>/1</sup> With a negative figure of W 0.4 billion shown in the 1978 resource statement as resources available for future disbursements.

<sup>/2</sup> The weighted average maturity of SMIB's deposits was approximately 10 months as of end September 1980; to the extent that SMIB's equipment loans whose average maturity was about 5.5 years in 1979/80 are financed from deposit resources, SMIB does undertake some term transformation by stretching the maturities of its deposits to cover long-term lending.

<sup>/3</sup> Long-term loans are defined as loans with a maturity exceeding one year.



3.53 Domestic Currency Resources. Unlike several government-owned financial institutions in Korea, SMIB is not overly dependent on the Government for its domestic currency resources. A major part of SMIB's domestic currency resources is mobilized independently in the form of deposits thus contributing to the mobilization of domestic savings. Resource statements show that equity resources (mainly in the form of government subscriptions to SMIB's share capital) accounted for 4% to 5% of total domestic resources in the period 1976-80.

3.54 Other government resources supplied to SMIB comprise essentially the National Investment Fund (NIF), the SMI Promotion Fund and short-term borrowings from the Bank of Korea.<sup>/1</sup> These government funds have increased marginally their share of SMIB's total domestic currency liabilities from 11% in 1978 to 15.5% in 1980. Concurrently, SMIB's deposit resources have declined in relative terms from 89% of total domestic currency borrowings in 1978 to 84.5% in 1980. While SMIB has satisfactorily kept direct financial support from the Government at a relatively low level in the past few years, its efficiency in mobilizing deposit resources independently from the Government has declined marginally in recent years. SMIB's total deposits at end-1980 amounted to W 823.4 billion compared to a target of W 873.1 billion. The slow growth in SMIB's deposit resources coupled with the need to increase the availability of long-term domestic resources in order to expand equipment lending suggest the need for SMIB to start tapping alternative sources of long-term domestic currency resources. In spite of the relatively high effective cost of such resources,<sup>/2</sup> debentures offer good prospects. SMIB is authorized by its charter to issue debentures with or without government guarantees. During negotiations it was agreed that SMIB would take all necessary measures to increase its local currency resources, including, inter alia, issuing debentures.

3.55 Foreign Currency Resources. Starting with a first foreign currency borrowing of Deutsche Mark 15 million from KfW in 1965, SMIB has gradually broadened the source of its foreign currency resources to USAID, OECF, ADB, the Exim Bank of Japan and IBRD since 1975. By end-September 1978, SMIB had mobilized a cumulative total of \$401.6 million, of which 31% were from ADB and 36% from IBRD (Annex B, Table 13). Apart from its borrowings from official sources, since 1976 SMIB has been channelling foreign exchange resources under the Korea Foreign Exchange (KFX) scheme sponsored by the Government. The KFX scheme is funded with the foreign

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<sup>/1</sup> Under BOK's rediscounting facility.

<sup>/2</sup> 23% to 24% p.a. Debenture proceeds could be onlent at an effective yield of 26% to 27% p.a. in the form of a purchase of corporate debentures issued by SMIB clients.

exchange reserves of the Bank of Korea and is supervised by MOF. Through end-September 1980, SMIB had received \$75.3 million from KFX, about 19% of its total foreign exchange resources. KFX funds are onlent at a floating rate of LIBOR + 1% to 1.25% depending on loan maturity. At end September 1980, SMIB had \$21.5 million available for future commitments. SMIB has since obtained a third line of credit from KfW of about \$4.2 million and a sixth loan of \$40 million from ADB. Based on projected operations, these foreign currency resources should cover commitments through the third quarter of 1981.

3.56 Although SMIB has been successful in mobilizing increasing amounts of foreign currency resources over the past five years, ADB and IBRD lending are now levelling off at \$40 million and \$60 million respectively. Similarly KFX funds which accounted for 29% of SMIB's foreign currency disbursements over 1978-80 have been discontinued in 1980 because of Korea's balance of payments difficulties. Although SMIB expects its approvals of foreign currency equipment loans to be lower in 1980/81 than the historical levels of 1978/79,<sup>/1</sup> a substantial build up is projected from \$65 million in 1981 to \$117 million in 1984. Alternative sources of foreign exchange need to be identified to support this level of lending (para. 3.60).

#### E. Prospects and Resource Requirements

##### Business Prospects

3.57 Following a decline of 5.7% in 1980, GNP is expected to increase by 5.5% in 1981 and 8% in real terms during the Fifth Five Year Plan period 1982-86. Fixed capital formation is expected to grow at 4% in real terms in 1981 and 8% during the Plan Period. SMIB estimates that SMI investment will increase in nominal terms by 19% in 1981 and 15% thereafter, a modest increase in real terms in view of expected inflation.<sup>/2</sup>

3.58 Within the limits of expected resource availability, SMIB has prepared operational projections for the period 1981-85 (Annex B, Table 14). The assumptions underlying these projections are generally reasonable. SMIB's disbursements of equipment loans are projected to remain at the historical level of 11% of fixed capital formation in the SMI sector. In line with recent trends, foreign currency lending is expected to account for an average of 30% of total commitments of equipment loans. Deposit

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<sup>/1</sup> With respectively \$75 million and \$95 million.

<sup>/2</sup> The GNP deflator is projected to reach 19.3% in 1981 and 12.2% in 1982.

resources are expected to grow at a rate of 27% p.a., higher than the 22% growth of 1980 but substantially less than in the period 1977-79 <sup>/1</sup>. Total cumulative commitments (working capital <sup>/2</sup> and equipment loans) are expected to reach W 2,852 billion over the five year period with foreign loan commitments amounting to \$509 million, 11.8% of the total. The annual increase in net working capital loans is projected at 22% and at 15% for equipment loans. Achievement of these targets will depend primarily on SMIB's ability to mobilize additional resources, particularly long-term domestic and foreign currency funds.

#### Resource Requirements

3.59 SMIB's resource requirements are shown in Annex B, Table 17. Cumulative domestic currency commitments over 1981-85 are expected to reach W 2,516 billion, consisting of W 811 billion for equipment loans and W 1,705 billion for working capital loans. In addition to its loan collections, SMIB expects to raise a total W 2,425 billion to meet these commitments. Long-term resources would amount to W 1,051 billion with government subscriptions to SMIB's share capital accounting for 14%, government funds for 33% and long-term deposits for 53%. Short-term resources would be mobilized from deposits (W 950 billion) and from BOK's rediscounting facility (W 424 billion). SMIB's plans for increasing its long-term domestic currency resources through issuance of debentures were discussed at negotiations. It was agreed that while the long-term interests of SMIB and the Korean economy would be served by SMIB entering the bond market, as this would both help to diversify SMIB's domestic currency resources and contribute to increasing domestic savings, SMIB first needed to undertake a review of the implications of and constraints to entering the bond market before deciding on the level or timing of issuing its bonds. This review is to be completed by December 31, 1981 and by March 31, 1982, SMIB will first inform the Bank of measures to be taken to enable SMIB to issue debentures, and will secondly consult with the Bank about the proposed timing of issue.

3.60 SMIB is planning to mobilize \$490 million in foreign currency over the period 1981-85 in addition to the \$57.1 million available at end 1980. Borrowings from IBRD would account for 45% and ADB for 31%. SMIB has projected a resumption of KFX borrowings in 1982 but this is unlikely to materialize. The nonavailability of KFX funds would leave a gap of \$120 million in SMIB's resource mobilization plan. SMIB might need to curtail substantially its projected lending operations unless alternative sources of foreign currency resources are developed. As its needs for foreign exchange

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<sup>/1</sup> The share of long-term savings deposits is estimated at about 32% which is too high relative to past experience (about 25%).

<sup>/2</sup> With working capital loans on a net incremental basis.

are growing and its access to Government foreign exchange resources might be limited in the future compared to its needs, SMIB should now initiate steps to forge new links with the international capital market. Although SMIB has not approached foreign commercial lenders yet, prospects for such borrowings appear to be favorable. SMIB would need to borrow relatively limited amounts at first so as to establish its name in capital markets and to build up a steady supply of foreign exchange. Availability of resources will be a major constraint on SMIB's ability to fulfill its operational objectives. SMIB's plans for initiating discussions with foreign commercial lenders were discussed at negotiations and its Development Strategy Statement for 1982-83 was amended to reflect SMIB's intention of mobilizing additional foreign currency financing from commercial sources (Annex B, Appendix 4).

#### Financial Forecasts

3.61 SMIB's financial performance and structure are expected to remain satisfactory over the next five years (Annex B, Tables 15 and 16). Net income is projected to grow from W 12.7 billion in 1980 to W 35 billion in 1985, a slight decline from 1% of assets to 0.8% resulting from a narrowing of the interest spread from 5.8% to 4.4%. Interest income would increase as a share of gross income from 80% in 1980 to 88% in 1985.

3.62 SMIB's total assets are projected to increase from W 1,411 billion in 1980 to W 4,597 billion in 1985, an average annual growth of about 27%. SMIB's loan portfolio would retain a share of about 72% of total assets throughout the projection period. Ratios of financial structure and performance show a satisfactory and improving trend. Due to projected increases in SMIB's share capital, the long-term debt/equity ratio would decline from 4.9:1 in 1980 to 3.3:1 in 1983 and would gradually increase thereafter. The ratio would remain within the contractual limit of 10:1 throughout the period 1981-84. The current ratio would remain at a satisfactory level of about 1.1 and the debt coverage ratio would increase marginally to 1.9 times which is adequate.

### 4. THE PROPOSED BANK LOAN

#### Project Objectives

4.01 Continued support of the SMI sector remains an important element in Korea's industrial development strategy in view of the sector's contribution to employment creation, regional dispersal of industry and growth of manufactured exports. However, Korea's comparative advantage in the production of labor-intensive light manufactured goods, on which the SMI sector was heavily dependent, has eroded rapidly in the seventies. This erosion was due to rising labor costs in Korea and to the emergence of efficient competitors in world markets. In view of this changing cost structure, Korea's recent industrial strategy has emphasized skill and technology development with priority placed on large industry in the allocation of scarce capital and human skills. With hindsight, it appears

that this industrial strategy has not sufficiently allowed the SMI sector to increase productivity and to improve quality of output through capital investment. Labor costs have also increased rapidly in the SMI sector with rising demand for skilled labor in large industry thus reducing further the profitability and competitiveness of SMI products.

4.02 Recent government policies and incentives in the SMI sector tend to increase the protection of SMI enterprises against competition from more efficient producers rather than improving the competitiveness of the sector through capital investment and betterment of skills. With the latter objective in the forefront, the proposed project would (a) augment SMIB's capability to provide long-term investment capital for improving SMI production technologies; (b) aim at improving investment in upgrading human skills through a comprehensive program of action aimed at reorganizing and improving the efficiency of extension services in Korea; and (c) improve further the institutional capability of SMIB by strengthening its efficiency in resource mobilization and allocation.

#### Project Benefits

4.03 The proposed loan of \$60 million is expected to finance approximately 39% of SMIB's projected foreign currency commitments over the twoyear period mid-1981 to mid-1983. The Bank loan is expected to help finance approximately 250 subprojects and to create approximately 5,000 new jobs at an average fixed investment cost per job of about \$20,000. The benefits to be derived from the proposed loan can be gauged in the light of SMIB's performance in allocating resources under the previous Bank loans (Annex B, Table 6).

4.04 SMIB's satisfactory operational capabilities in the areas of project appraisal and supervision have enabled it to operate as an efficient allocator of Bank resources to the SMI sector. As of end October 1980, SMIB had allocated total Bank resources of \$130.6 million to 616 subprojects. Under the third Bank loan (1749-K0) alone, \$45.9 million had been allocated to 247 subprojects representing a total investment cost of \$90 million equivalent.

4.05 As expected at the time of appraisal, Bank resources under Loan-1749 have been used by SMIB to finance relatively small, labor-intensive projects. Subloans ranged in size from \$27,000 to \$1.5 million with an average of \$185,700. The average asset size of applicants was W 294 million (\$564,000) and average employment at the time of application was 70 persons. The sectoral distribution of subloans was satisfactorily diversified with manufacturing accounting for 80% of total approvals, transportation for 7%, construction for 4% and the remainder allocated to other manufacturing activities. Textiles and machinery accounted for 25% each of manufacturing sector loans. The regional distribution of subloans was also satisfactory with Seoul and Pusan accounting for 28.5% of the total

allocated funds. Only 17% of the total number of subprojects had any export sales but export-oriented projects were expected to export an average of 58% (\$38 million) of their annual output. The direct employment impact of the subprojects was estimated by SMIB at 4,250 new jobs with a fixed investment cost per job ranging from \$1,120 (metal working) to \$261,500 (ship repair) with an average of \$17,500. Calculations of rates of return for a limited sample of subprojects showed a range of 18.9% to 25.7% for the FRR and substantially higher economic benefits with a range of 29.2% to 48.3%. Weighted average rates of return were respectively 21% for the FRR and 36.4% for the ERR. The subprojects to be financed under the proposed loan are expected to yield similar benefits although the emphasis now being placed on modernization and higher productivity may lead to the financing of relatively larger and capital-intensive projects. The proposed project does not entail any unusual risk.

#### Main Features of the Loan

4.06 Purpose. As with previous Bank loans to SMIB, the proposed loan would be used to finance (a) 100% of the foreign exchange cost of directly imported goods and services; and (b) 60% of the cost in domestic currency (representing the estimated foreign exchange component) of locally manufactured or procured machinery and equipment./1

4.07 Eligibility Criteria. Previous Bank loans to SMIB emphasized labor-intensive investment and accordingly, eligibility of subborrowers was defined in terms of maximum asset size of applicants (W 1 billion under Loans 1507-K0 and 1749-K0). Current objectives in the SMI sector are not solely related to employment intensity, but, even more importantly, are aimed at increasing productivity and efficiency. Under the proposed loan, eligibility of subborrowers would be defined in terms of maximum size of employment in order to reflect this change of priorities and to allow more flexibility in financing projects which could be relatively capital-intensive. SMIB's own definition of 300 employees would be retained except for activities designated by the Government under the Small and Medium Industry Promotion law for which the limit has been raised to 500 employees (i.e., automobile and bicycle parts, electronics, pottery, etc.).

4.08 Subloan Ceiling. In recognition of the greater funding requirements of some modernization investments, the ceiling on individual subloans would be raised from \$1.5 million under the third loan to \$2 million. with an average of \$17,500. Calculations of rates of return for a limited sample of subprojects showed a range of 18.9% to 25.7% for the FRR and substantially higher economic benefits with a range of 29.2% to 48.3%. Weighted average rates of return were respectively 21% for the FRR and 36.4% for the

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/1 About 5% of the third Bank loan has been used by SMIB to finance domestically procured equipment.

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4.08 Subloan Ceiling. In recognition of the greater funding requirements of some modernization investments, the ceiling on individual subloans would be raised to \$2 million.

4.09 Free Limit. It is recommended that the free limit of \$0.5 million remain unchanged. This limit is expected to result in the submission to the Bank of about ten subprojects (accounting for approximately 15% of the total loan amount) for detailed review prior to approval.

4.10 Debt/Equity Limit. The Government's commitment to increase its subscriptions to SMIB's share capital as needed to maintain the long-term debt/equity ratio within a limit of 10:1 had been recorded in the Guarantee Agreements of previous Bank loans. The Government has complied with this covenant. This maximum long-term debt/equity limit will remain unchanged under the proposed loan.

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/1 About 5% of the third Bank loan has been used by SMIB to finance domestically procured equipment.

4.11 Relending Rate. In accordance with MOF lending guidelines, SMIB has been onlending the proceeds of its foreign currency borrowings from official sources by adding a uniform interest spread of two percentage points above its own borrowing rates and with the foreign exchange risk passed on to subborrowers. The 2% interest spread is adequate to cover the cost incurred by SMIB in processing subloan applications and is in line with the practice of other development finance institutions in Korea. Under the proposed Bank loan, the relending rate to subborrowers would be 11.6% p.a.

4.12 Based on the lending rate of 7.9% charged by the Bank under the second and third loans to SMIB, the subborrowers were charged an interest rate of 9.9% p.a./1 In addition to US dollars, the currencies disbursed by the Bank comprised a sizeable proportion of "hard" currencies; in aggregate, disbursements of Yen, Deutsche Mark, and Swiss Francs accounted for 50% to 87% of total disbursements under the three Bank loans./2 The foreign exchange risk assumed by SMIB's subborrowers therefore comprised (a) a cross currency foreign exchange risk between the "hard" currencies disbursed by the Bank and the US dollar; and (b) a foreign exchange risk between the US dollar and the Won. The depreciation of the US dollar against the "hard" currencies and of the Won against the US dollar in the period 1976-80 has increased the effective borrowing cost to subborrowers well above the nominal interest rate as shown below:

	Loan 1175-K0	Loan 1507-K0	Loan 1749-K0
Nominal borrowing rate (%)	10.5	9.9	9.9
Effective borrowing rate (%)			
US\$ basis	17.9	8.6/a	13.4
Won basis	23.5	21.7	21.7

/a The lower effective borrowing cost in US dollars resulted from the appreciation of the US dollar relative to the Yen and Swiss Franc over the disbursement period (1978-80).

/1 Under the first Bank loan SMIB's borrowing cost was 8.5% p.a. and the relending rate 10.5%.

/2 75% under the first loan; 87% under the second loan; and 50% under the third loan.



The above table shows that the average effective cost of Bank resources has not been unduly subsidized relative to SMIB's domestic currency loans; the standard lending rate for domestic currency long-term loans has fluctuated between 20% and 25% p.a. during the period 1978-80. While foreign exchange fluctuations in the eighties may not be as wide as in the late seventies, the effective relending rate of Bank funds under the proposed loan is expected to exceed substantially the nominal rate of 11.6% p.a. Under previous Bank loans, the Bank's disbursement practices resulted in wide distortions among subborrowers as the mix of currencies disbursed varied from subborrower to subborrower, causing wide differentials in the exchange risk and therefore in the effective interest cost of individual subborrowers. The currency pooling system will remedy this deficiency by equalizing the foreign exchange risk among subborrowers. SMIB is currently in the process of drafting, with the help of its legal counsel, new legal documents (between SMIB and its subborrowers), to accommodate the introduction of the currency pooling system.

4.13 Amortization Schedule. As is usual with Bank loans to DFCs, the proposed loan would have an adjustable composite amortization schedule reflecting the aggregate amortization schedules of the subloans made by SMIB. The proposed loan will be fully repaid within 15 years including a grace period of 3 years. Individual subloans would have a maximum maturity of 13 years including a grace period of three years. The estimated disbursement schedule of the proposed loan is shown in Annex B, Table 19.

#### Agreements and Understandings Reached at Negotiations

4.14 The following agreements and understandings were reached with the Korean Government during negotiations:

- (a) the Government will continue to provide SMIB with additional equity as needed in the future to maintain SMIB's long-term debt-equity ratio within a limit of 10:1 and to allow a satisfactory expansion of SMIB's mobilization of long-term domestic and foreign currency resources (para. 4.10);
- (b) a comprehensive study of extension services for SMI would be carried out by the Government according to the terms of reference agreed upon at negotiations. Upon completion of the study (by December 31, 1981), the Government would consult with the Bank on its recommendations and agreement would be sought on a program of action aimed at reorganizing extension services. The cost of the study would be borne by the Government (para. 2.15).

4.15 The following agreements were reached with SMIB and recorded in the loan documents:

- (a) a long-term debt/equity limit of 10:1 would be maintained by SMIB (para. 4.10);
- (b) the free limit on subloans would be maintained at \$0.5 million (para. 4.09);
- (c) eligible subborrowers would be defined as applicant enterprises with a maximum size of employment of 300 persons, except for activities defined in attachment No. 1 of the Presidential Decree No. 9,370 dated March 10, 1979 enforcing the Small and Medium Industry Promotion Act for which the maximum size of employment would be 500 persons (para. 4.07);
- (d) a ceiling of \$2 million would be applied to individual subloans (para. 4.08);
- (e) SMIB would take all necessary measures to increase local currency resources including, inter alia, issuing debentures (para. 3.54); and
- (f) SMIB's procurement procedures would be modified so as to ensure that an adequate degree of competition is ensured in all cases in the procurement of equipment. For subprojects above the free limit, the appraisal report would review the need for applying international competitive bidding (para. 3.24).

4.16 In addition, the Bank reviewed and reached understandings with SMIB on the following points:

- (a) SMIB would undertake a comprehensive training program aimed at improving the capability of its staff in project appraisal. The timetable and scope of the program was agreed upon at negotiations; implementation would be monitored by the Bank (para. 3.17);
- (b) SMIB would undertake a review of the implications of and constraints to entering the domestic bond market which would be completed by December 31, 1981. By March 31, 1982, SMIB will inform the Bank of the measures to be taken to enable SMIB to issue debentures and will consult with the Bank about the proposed timing of issue (para. 3.59); and
- (c) SMIB would amend its Development Strategy Statement for 1982/83 to reflect its intention to diversify its long-term foreign currency resources by mobilizing funds from the international capital market (para. 3.60).

4.17 Recommendation. A Bank loan of \$60 million with a maturity of 15 years, including a grace period of 3 years, is recommended for SMIB.

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ANNEX A - THE SMI SECTOR

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ANNEX A

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Terms of Reference of a Study of SMI Extension Services in Korea

Background

The Korean Government is currently in the process of formulating a ten year development plan for the SMI sector which aims at increasing the contribution made by that sector to the country's overall economic development objectives. To this end, the Government intends to conduct a comprehensive study of the legislative, institutional and financial framework which supports the SMI sector. This study, which is expected to be completed by December 31, 1981 would comprise inter alia a detailed review of the shortcomings of the present institutional arrangements for providing technical guidance to SMI enterprises through government agencies and would formulate recommendations aimed at improving the efficiency of these arrangements and at increasing their responsiveness to the needs of the sector. Both the Government and the World Bank consider that a more efficient system of technical assistance is essential to supplement the financial assistance channelled through the financial system in support of increased productivity and improved quality of output in the SMI sector. In view of this common concern, it was therefore agreed between the Government and the Bank that the proposed technical assistance review would be carried in accordance with the following terms of reference.

1. Technical Assistance Objectives and Requirements

The objectives of the system of provision of technical assistance need to be formulated with reference to the Government's broad objectives in the SMI sector. It is assumed that, because of the high cost of an efficient technical assistance system, the Government may wish to concentrate its efforts on subsectors and enterprises which show the greatest growth potential and which are likely to contribute to rapid economic development. The issue is for the Government to decide whether the system can reasonably be expected to cover the whole SMI population or whether a more selective approach is justified, at least in the beginning. The definition of the target group should enable a detailed analysis of the requirements of the potential clientele, i.e., managerial services (bookkeeping, cost accounting, financial plans) and technological services (engineering skills to support particular branches of industry).

## 2. Diagnosis

In the past two years, the establishment of the SMI Promotion Cooperation and the designation by the Government of authorized technical assistance agencies has introduced considerable changes in the role and performance requirements of the institutions involved in the delivery of technical extension services. The study should review the actual performance of each individual agency over the past two years, in relation to their annual plan of operations; their ability to deliver services, particularly through on-site visits, which adequately answer the needs of the potential clientele; the quality of these services; and the adequacy of their staff (both in terms of qualifications and staff size), account being taken of the fact that a number of these agencies employ only a limited part of their personnel to service the SMI sector. Having reviewed each individual agency, the study should attempt to identify the areas (e.g., managerial versus technical advice or the particular industrial subsectors) in which these agencies have greater intrinsic strength and areas in which performance is unsatisfactory. The study should then assess the extent to which the various technical agencies coordinate their activities so as to answer the needs of the SMI sector in an effective manner. A diagnostic summary of the constraints and shortcomings of each institution and of the overall technical assistance delivery system should conclude this review of the present institutional set up.

## 3. Institutional Arrangements

The study should outline the merits and demerits of various alternatives aimed at providing a coordinated system of technical assistance services. Two main alternatives ought to be considered: first, the possibility of concentrating within a single institution the complete range of services and skills required to support the objectives defined above; second, it may be desirable to opt for a system of agencies specialized in either managerial or technological aspects and possibly in specific technological problems related to particular subsectors of industry. The second alternative obviously calls for some kind of apex coordinating agency (such as SMIPC) which may not be directly involved in the delivery of technical assistance to individual enterprises but which can act as a planning, coordinating and training agency (for training of extension officers and possibly for SMI entrepreneurs and their employees.) The decision to recommend a particular alternative for institutional reorganization ought to be based on the review of individual institutions proposed in the second part of this study which is expected to identify the strengths and weaknesses of each agency.

## 4. Staffing

The high cost of technical assistance services is due in part to the large number of extension staff required and the variety of skills needed. The study ought to review the comparative advantages of relying on technical agents employed full time by the agency(ies) delivering technical

assistance and/or of hiring consultants employed by other agencies or by the private sector (including large industry) to perform specific technical assistance assignments. Availability of skills, continuity of employment and comparative costs are some of the elements which could be considered in this review.

5. Cost Recovery

The study ought to ascertain the feasibility of charging fees, real or nominal, for the provision of quality services to potential clients.

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Role of SMI in the Manufacturing Sector /c

Year	No. of establishments			No. of employees			Value added (W billion)			Value added per employee (W '000)			Output (W billion)			Fixed asset investment (W billion)		
	Large	SMI	% /a	Large	SMI	% /a	Large	SMI	% /a	Large	SMI	% /a	Large	SMI	% /a	Large	SMI	% /a
1968	554	23,255	97.7	343,401	404,906	54.1	194	107	35.5	565	264	46.7	494	275	35.8	50	22	30.6
1972	833	22,896	96.5	532,629	440,786	45.3	648	251	27.9	1,217	569	46.8	1,702	540	24.1	200	55	21.6
1975	1,349	21,438	94.1	885,807	534,337	37.6	2,112	716	25.3	2,384	1,340	56.2	6,200	1,970	24.1	708	130	15.5
	(873)	(21,914)	(96.2)	(771,078)	(648,955)	(45.7)	(1,930)	(896)	(31.7)	(2,503)	(1,381)	(55.2)	(5,664)	(2,509)	(30.7)	(672)	(167)	(19.9)
1976	1,483	23,474	94.1	1,071,610	645,698	37.6	3,108	967	23.7	2,900	1,498	51.6	9,047	2,630	22.5	871	247	22.1
	(1,023)	(23,928)	(95.9)	(959,221)	(756,738)	(44.1)	(2,851)	(1,222)	(30.0)	(2,972)	(1,615)	(54.3)	(8,231)	(3,444)	(29.5)	(865)	(296)	(25.5)
1977	1,747	24,979	93.5	1,197,724	721,207	37.6	4,174	1,422	25.4	3,484	1,972	56.6	11,792	3,646	23.5	1,059	277	20.7
	(1,084)	(25,641)	(95.9)	(1,035,977)	(882,954)	(46.0)	(3,782)	(1,814)	(32.4)	(3,651)	(2,054)	(56.3)	(10,720)	(4,718)	(30.6)	971	365	27.3

/a SMI share expressed as percentage of total.

/b SMI level of value added per employee expressed as percentage of level in large enterprises.

/c Figures in brackets apply to new definition of SMI enterprises, i.e., those employing up to 300 employees (other figures based on old definition of up to 200 employees).

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Comparative Financial Structures of SMI and Large Industries/a  
(in percentage of total assets)

	1973	1974	1975	1976	1977	1978
<hr/>						
<u>A. Small and Medium Industries</u>						
ASSETS						
Current assets	60.3	58.4	61.0	59.6	56.0	62.7
Fixed assets	37.6	39.3	37.5	38.7	40.3	35.5
Other	2.1	2.3	1.5	1.7	3.6	1.8
<u>Total assets</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
LIABILITIES						
Short-term liabilities	44.2	43.0	49.4	54.4	51.3	56.1
(of which						
short-term bank borrowings)	(16.4)	(13.9)	(17.5)	(20.4)	(17.9)	(18.2)
Long-term liabilities	15.6	15.5	14.5	18.7	26.3	23.4
(of which						
long-term bank borrowings)	(10.2)	(14.5)	(9.9)	(14.6)	(22.9)	(18.8)
<u>Total liabilities</u>	<u>59.8</u>	<u>58.5</u>	<u>63.9</u>	<u>73.1</u>	<u>77.6</u>	<u>79.5</u>
(of which bank borrowings)	(26.6)	(28.4)	(27.4)	(35.0)	(40.8)	(37.0)
EQUITY	<u>40.2</u>	<u>41.5</u>	<u>36.1</u>	<u>26.9</u>	<u>22.3</u>	<u>20.5</u>
<u>B. Large Industries</u>						
ASSETS						
Current assets	50.9	52.3	52.5	53.2	49.9	48.1
Fixed assets	45.7	42.6	44.3	44.5	48.1	50.0
Other	3.4	5.1	3.2	2.3	2.0	1.9
<u>Total assets</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
LIABILITIES						
Short-term liabilities	37.9	43.0	43.9	45.8	45.6	44.0
(of which						
short-term bank borrowings)	(15.0)	(18.3)	(15.3)	(16.7)	(15.5)	(14.0)
Long-term liabilities	35.5	33.3	34.0	33.0	33.1	34.4
(of which						
long-term bank borrowings)	(28.6)	(27.3)	(25.6)	(24.7)	(25.9)	(24.8)
<u>Total liabilities</u>	<u>73.4</u>	<u>76.3</u>	<u>77.9</u>	<u>78.8</u>	<u>78.7</u>	<u>78.4</u>
(of which bank borrowings)	(43.6)	(45.6)	(40.9)	(41.4)	(41.4)	(38.8)
EQUITY	<u>26.6</u>	<u>23.7</u>	<u>22.1</u>	<u>21.2</u>	<u>21.3</u>	<u>21.6</u>

/a Manufacturing sector only.

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Outstanding Loans to SMI as of July 31, 1980  
(W billion)

	Nationwide Commercial banks	Regional Commercial banks	SMIB	CNB	Total
Manufacturing	1,126.6	294.0	756.1	148.4	2,325.1
Working capital	1,040.5	288.1	471.1	135.6	1,935.3
Equipment	86.1	5.9	285.0	12.7	389.8
Mining & Quarrying	23.0	3.4	4.2	2.8	33.4
Working capital	22.4	3.3	3.3	2.6	31.5
Equipment	0.6	0.1	0.9	0.2	1.8
Transportation	129.5	30.1	13.4	31.0	204.0
Working capital	113.7	28.1	11.9	18.7	172.4
Equipment	15.8	2.0	1.5	12.3	31.6
Construction	55.4	17.9	15.1	15.4	103.8
Working capital	54.4	17.9	11.4	12.9	96.6
Equipment	1.0	-	3.7	3.5	7.3
Commerce & Other Services	193.5	77.3	21.5	173.6	466.0
Working capital	182.5	73.4	21.1	164.5	441.5
Equipment	11.0	3.9	0.4	9.2	24.5
Agriculture & Fishing	40.6	20.0	-	2.4	63.1
Working capital	39.9	19.7	-	2.4	62.0
Equipment	0.7	0.3	-	0.1	1.1
Total	1,568.6	442.8	810.3	373.7	3,195.4
Working capital	1,453.3	430.6	518.7	336.7	2,739.3
Equipment	115.3	12.2	291.5	37.0	456.1

Source: The Bank of Korea

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Breakdown of Outstanding Loans to SMIs by Banking Institution  
(in Won million)

As of December 31,	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	July 31, 1980
SMB	47,872	63,311	83,301	108,152	151,770	185,041	225,428	296,523	429,018	651,288	810,300
Nationwide Commercial Banks	133,225	157,877	197,441	263,254	391,053	284,901	498,142	632,298	908,645	1,356,849	1,568,600
Regional Commercial Banks	8,604	16,482	26,802	44,605	72,277	83,982	159,587	204,859	272,969	370,418	442,800
CNB	18,731	20,180	33,057	61,796	87,081	71,113	166,498	203,314	237,553	320,862	373,700
Others	12,469	14,375	7,316	20,319	33,827	26,910	-	-	-	-	-
<u>Total</u>	<u>220,901</u>	<u>272,225</u>	<u>347,917</u>	<u>498,126</u>	<u>736,008</u>	<u>651,947</u>	<u>1,049,655</u>	<u>1,336,994</u>	<u>1,848,185</u>	<u>2,699,417</u>	<u>3,195,400</u>

Source: Bank of Korea

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Interest Rate Structure

(In percent p.a.)

	September 1980	November 1980
<u>A. Interest Rates on Deposits</u>		
1. <u>Time Deposits</u>		
Over 3 months	17.22	14.82
Over 6 months	19.32	16.92
Over 1 year	21.9	19.5
2. <u>Installment Savings</u>		
Over 1 year	17.6	15.1
Over 2 years	19.6	17.1
Over 3 years	22.0	19.5
3. <u>Wage Earners Savings Scheme /a</u>		
Over 2 years	28.4 (16.9)	28.4 (16.9)
Over 3 years	30.9 (18.6)	30.9 (18.6)
Over 5 years	33.6 (20.6)	33.6 (20.6)
<u>B. Lending Rates</u>		
<u>I. Commercial Banks</u>		
1. <u>Working Capital Loans</u>		
Prime borrower	21.5	19.5
Nonprime borrower	22.0	20.0
2. <u>Commercial Notes</u>		
Prime borrower	21.5	19.5
Nonprime borrower	22.0	20.0
3. <u>Overdraft</u>		
Prime borrower	23.5	21.5
Nonprime borrower	24.0	22.0
4. <u>Equipment Loans</u>		
Less than 3 years:		
Prime borrower	21.5	19.5
Nonprime borrower	22.0	20.0
3 to 8 years:		
Prime borrower	22.5	20.5
Nonprime borrower	23.0	21.0
Above 8 years:		
Prime borrower	23.5	21.5
Nonprime borrower	24.0	22.0

	September 1980	November 1980
5. <u>Export Financing</u>	12.0	12.0
6. <u>National Investment Fund</u>		
Less than 3 years	20.0	18.5
3 to 8 years	21.0	19.5
7. <u>Raw Material Imports for Export Industries</u>	20.0	18.0
II. <u>Korea Development Banks</u>		
1. <u>Working Capital Loans</u>		
Government resources	20.0	18.5
Internal resources:		
Machine Industry Promotion	20.0	18.5
Special Equipment Funds	20.0	18.5
Prime borrowers (standard)	21.5	19.5
Nonprime borrowers (standard)	22.0	20.0
Foreign Commercial Funds /b	12.0-15.5	12.0-15.5 /c
2. <u>National Investment Fund</u>		
Less than 3 years	20.0	18.5
3 to 8 years	21.0	19.5
3. <u>Tourism Development Fund</u>	13.0-17.5	13.0-17.5
4. <u>Industrial Rationalization Fund</u>		
Direct lending:		
Less than 3 years	20.0	18.5
3 to 8 years	21.0	19.5
Through other banks:		
Less than 3 years	18.5	17.0
3 to 8 years	19.5	18.0
5. <u>Budgetary Resources</u>	13.0-16.0	13.0-15.0

	September 1980	November 1980
6. <u>Equipment Loans</u>		
Government resources	20.0	18.5
Internal resources:		
Machine industry promotion -		
Less than 3 years	20.0	20.0
3 to 8 years	21.0	21.0
Over 8 years	22.0	22.0
Special equipment -		
Less than 3 years	20.0	18.5
3 to 8 years	21.0	19.5
Priority industries -		
Less than 3 years	20.0	18.5
3 to 8 years	21.0	19.5
Over 8 years	22.0	20.5
Nonpriority -		
Less than 3 years	21.5	20.0
3 to 8 years	22.5	21.0
Over 8 years	23.5	22.0
<u>Foreign Commercial Funds /b</u>	12.0-15.5	11.2-12.7
<u>Foreign Currency Loans</u>		
KfW (4th loan)	9.0	9.0
ADB (5th loan)	9.65	9.65
IBRD (2nd loan)	10.5	10.5
(3rd loan)	9.5	9.5
Foreign Commercial Funds /d		LIBOR + 1.9%
III. <u>Korea Long-Term Credit Bank</u>		
1. <u>Domestic Currency Equipment Loans /d</u>		
Loans	23.50-24.00	22.00-22.50
Debenture subscription	26.75-27.25	26.75-27.25
Convertible debenture subscription	25.75-26.25	25.75-26.25
2. <u>Foreign Currency Loans</u>		
IBRD (7th loan)	9.35	9.35
ADB (3rd loan)	9.6	9.6
Commercial loan	Borrowing cost + 1.25%	Borrowing cost + 1.25%

	September 1980	November 1980
IV. <u>Citizen's National Bank</u>		
1. <u>Internal Fund Loans</u>		
Less than 3 years:		
Prime borrower	21.5	19.5
Nonprime borrower	20.0	20.0
3 to 5 years:		
Prime borrower	22.5	20.5
Nonprime borrower	23.0	21.0
2. <u>Government Fund Loans</u>		
Loans on household manufacturing:		
Prime borrower	22.0	20.0
Nonprime borrower	22.0	20.0
C. <u>Maximum Rate /e</u>	29.0	28.0
V. <u>The Small and Medium Industry Bank</u>		
1. <u>Banking Fund Loans</u>		
(a) <u>Working Capital Loans</u>		
Overdraft for SMI		
Prime borrowers	23.5	21.5
Nonprime borrowers	24.0	22.0
Loans for SMI		
Prime borrowers	21.5	19.5
Nonprime borrowers	22.0	20.0
Loans on installment savings for SMI		
Prime borrowers	19.5	17.5
Nonprime borrowers	20.0	18.0
General loans		
Prime borrowers	21.5	19.5
Nonprime borrowers	22.0	20.0
Loans substituting for Government Fund	20.0	18.0

	September 1980	November 1980
Loans for promotion of machinery industry	20.0	18.0
Bills discounted -		
Prime borrower	21.5	19.5
Nonprime borrower	22.0	20.0
Loans for exports /f	15.0-(12.0)	15.0-(12.0)
(b) <u>Equipment Loans</u>		
Loans for SMI -		
Priority industries		
Less than 3 years	21.5	19.5
3 to 8 years	22.5	20.5
Nonpriority industries		
Less than 3 years	22.0	20.0
3 to 8 years	23.0	21.0
Loans substituting for Government Fund		
Less than 3 years	20.0	18.0
3 to 8 years	21.0	19.0
Loans for promotion of machinery industry		
Less than 3 years	20.0	18.0
3 to 8 years	21.0	19.0
2. <u>Government Fund Loans</u>		
Working capital loans	20.0	18.5
Equipment loans	20.0	18.5
3. <u>National Investment Fund Loans</u>		
Working capital loans	20.0	18.5
Equipment loans		
Less than 3 years	20.0	18.5
3 to 8 years	21.0	19.5
4. <u>Industrial Rationalization Fund Loans</u>		
Equipment loans		
Less than 3 years	21.0	20.0
3 to 8 years	22.0	21.0



	September 1980	November 1980
5. <u>Small &amp; Medium Industry Promotion Fund Loans</u>		
Working capital loans	10-19	10-17
Equipment loans	15-19	13-17
6. <u>Foreign Fund Loans</u>		
ADB (4th loan)	10.9	10.9
(5th loan)	9.7	9.7
IBRD (2nd loan)	9.9	9.9
(3rd loan)	9.9	9.9
7. <u>KFX Fund Loans</u>		
Under 3 years	LIBOR + 1.0%	LIBOR + 1.0%
3 to 7 years	LIBOR + 1.125%	LIBOR + 1.125%
Over 7 years	LIBOR + 1.125%	LIBOR + 1.25%

/a Figures in parentheses show the basic interest rate payable by financial institutions; the remainder is subsidized by Government.

/b Converted into domestic currency.

/c Applicable rate determined monthly by KDB's International Department, subject to a ceiling of 21% for priority industries and 24.5% for non-priority.

/d No surcharge for loans extended with bank guarantee; add 0.5% surcharge for loans collateralized with mortgage.

/e As prescribed under the Law of Controlling Interest Rate.

/f Figures in parentheses are temporary interest rates applicable until December 31, 1980.

/g No surcharge for loans extended with bank guarantee; add 0.5% surcharge for loans collateralized with mortgage.



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ANNEX B: THE SMALL AND MEDIUM INDUSTRY BANK

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THE SMALL AND MEDIUM INDUSTRY BANK

ANNEX B

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THE SMALL AND MEDIUM INDUSTRY BANK

Board of Policy  
(as of September 30, 1980)

Name	Position	Date of appointment	Date of Expiry
1. Park, Sung Sang	President of the Small and Medium Industry Bank	07/30/80	Ex-Officio
2. Rhee, Soo Hyoo	Director, Finance Bureau, Ministry of Finance (Nominated by the Minister of Finance)	09/ /80	Ex-Officio
3. Eem, In Teak	Director, Bureau of Small and Medium Industry, Ministry of Commerce and Industry (Nominated by the Minister of Commerce and Industry)	07/26/78	Ex-Officio
4. Ahn, Sang Guk	Assistant Governor, The Bank of Korea (Nominated by the Governor of the Bank of Korea)	05/16/79	Ex-Officio - May 9, 1982
5. Ryu, Ki Jung	Chairman, Korea Federation of Small Business	09/ /80	Ex-Officio - Sept. 1983
6. Choi, Ik Sung	Representative of small entrepreneurs (Director, Korea Federation of Small Business, selected by the Minister of Finance)	01/16/79	Jan. 15, 1982
7. Yoon, Joon Mo	Representative of small entrepreneurs (selected by the Minister of Finance)	01/16/79	Jan. 15, 1982

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THE SMALL AND MEDIUM INDUSTRY BANK

Board of Directors  
(as of September 30, 1980)

Name	Position	Background
Park, Sung Sang	President	Appointed July 30, 1980. Previously Deputy President, The Small and Medium Industry Bank, since 1976 and Assistant Governor, BOK.
Suh, Won Suk	Deputy President	Appointed August 11, 1980. Previously Director and Executive Vice President, Korea Exchange Bank.
Park, Jang Shur	Director	Previous commercial banking background. Joined SMIB in 1961. Appointed Director in April 1975. Reappointed in April 1978.
Choo, Yil	Director	Previous commercial banking background. Joined SMIB in 1961. Previously Director, Korea Credit Guarantee Fund. Appointed Director in April 1978.
Koh, Byoung Uk	Director	Previous commercial banking background. Joined SMIB in 1961. Appointed Director in June 1980. Prior to that was Manager of SMIB's International Banking Department.
Chun, Yang Soo	Director	Previous commercial banking background. Joined SMIB in 1961. Appointed Director in August 1980. Prior to that was Manager of SMIB's Loan Operations Department I.
Kim, Jung Kyu	Director	Previous commercial banking background. Joined SMIB in 1961. Appointed Director in August 1980. Prior to that was Manager of SMIB's Planning and Coordination Department.

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THE SMALL AND MEDIUM INDUSTRY BANK

Outline of Development Strategy for 1980/81 /1

In parallel with the projected expansion of its financing operations in the two-year period 1980/81, SMIB will endeavor to enhance its impact on the Small and Medium Industry sector through the implementation of the developmental objectives outlined below.

- (a) It is SMIB's policy and intention, apart from financing medium-sized enterprises (as presently defined) to make special efforts to seek out and assist an increasing number of small enterprises (in terms of total assets) and relatively labor-intensive projects (in terms of the capital:labor ratio). This emphasis on financing small, relatively labor-intensive projects will apply to the use by SMIB of IBRD resources as well as its other resources.
- (b) SMIB will endeavor to increase the mobilization of household and to storeholder savings, particularly emphasizing relatively long-term deposits, in an effort to augment its domestic currency resources. This is intended to be in part achieved by expanding its branch network.
- (c) SMIB will continue to gradually increase the proportion of its financing to areas outside metropolitan Seoul and Busan in an effort to promote a more even distribution of industry and employment opportunities in Korea. SMIB will endeavor to reduce the proportion of Seoul and Busan to about 45% for the 1980/81 period.
- (d) SMIB will actively assist the small and medium-sized enterprises in the machinery subsector which has been specified as a high priority subsector by the Government in the Fourth Five-Year Plan.
- (e) In connection with (d) and (a), and in an effort to deepen the industrial structure in Korea, SMIB will, where appropriate, actively encourage and promote subcontracting arrangements.
- (f) SMIB will continue to give high priority in its financial and technical assistance to small rural industries within the Saemaeul Program.
- (g) SMIB will strengthen its research activities, with particular emphasis on sector and market studies for small and medium-sized industries, and will consistently apply the findings of these studies in its operations.

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/1 The previous Development Strategy agreed between the Bank and SMIB covered the two-year period 1978/79.



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THE SMALL AND MEDIUM INDUSTRY BANK

Outline of Development Strategy for 1982-83

SMIB will endeavor to enhance its impact on the Small and Medium Industry Sector through the implementation of the development objectives outlined below:

- (a) It is SMIB's policy and intention to continue to make special efforts to seek out and assist an increasing number of small (as opposed to medium size) and relatively labor-intensive projects. In addition, however, SMIB, recognizing the need to improve the productivity and quality of output of the SMI sector in order to increase its competitiveness, particularly in export markets, will place increased emphasis on providing finance for modernization through capital investments.
- (b) SMIB will pursue further its efforts at mobilization of deposits from the household and corporate sectors with particular emphasis on long-term savings deposits. In an attempt to increase its medium- and long-term domestic currency resources and to contribute to increasing domestic savings in the country, SMIB in a supplemental letter to the Bank dated .....has agreed to consider the possibility and future timing of issuing debentures.
- (c) In an attempt to supplement and diversify its long-term foreign currency resources, SMIB plans to consult with the Government before entering into discussions with foreign commercial lenders with a view to raising foreign commercial borrowings.
- (d) SMIB will continue to increase the protection of its financing to areas outside metropolitan Seoul, Pusan and Kyong Gi Province in an effort to promote a more even distribution of industry and employment opportunities in Korea. SMIB expects to increase its lending outside these three major industrial areas from 36% to 40% by 1983.
- (e) SMIB will actively assist the small- and medium-sized enterprises in the machinery subsector which has been specified as a high priority subsector by the Government.
- (f) Recognizing the need to deepen the industrial structure in Korea, SMIB will, where appropriate, actively encourage and promote subcontracting agreements.

- (g) SMIB will continue to strengthen its research activities, with particular emphasis on sector and market studies for small- and medium-sized industries. In an attempt to more consistently apply the findings of these studies directly to its operations, SMIB will take the necessary measures to increase the coordination between its research and project appraisal departments.
- (h) SMIB will initiate a staff training program particularly designed to introduce staff to the more sophisticated techniques of subsector analysis and project evaluation.

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THE SMALL AND MEDIUM INDUSTRY BANK

Staff Position and Projected Requirements

Category of Staff	Actual			Projected				
	1978	1979	1980 (Sept 30)	1980	1991	1982	1983	1984
<u>Senior Professional Staff</u>								
Financial Analysts	391	413	435	453	483	498	510	520
Economists	125	153	169	195	220	230	240	250
Engineers	48	52	55	55	60	65	70	75
Bankers	201	226	251	269	290	310	320	332
Lawyers	137	157	168	187	212	220	230	240
Accountants	7	7	7	7	7	7	7	7
Other	52	59	64	68	78	80	83	86
Subtotal	<u>961</u>	<u>1,067</u>	<u>1,149</u>	<u>1,234</u>	<u>1,350</u>	<u>1,410</u>	<u>1,460</u>	<u>1,510</u>
Staff other than officer (incl. junior professional staff)	2,486	2,703	3,039	3,334	3,550	3,720	3,890	4,020
Labor and others	585	604	627	704	750	800	830	850
Total	<u>4,032</u>	<u>4,374</u>	<u>4,815</u>	<u>5,272</u>	<u>5,650</u>	<u>5,930</u>	<u>6,180</u>	<u>6,380</u>

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THE SMALL AND MEDIUM INDUSTRY BANKSummary of Loan Operations, 1976-80 (Sept. 30)  
(In won million)

	1976		1977		1978		1979		1980 (Sept. 30)	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<b>Approvals</b>										
Equipment loans										
Domestic currency	1,241	18,755	1,717	21,663	2,451	42,638	2,961	65,139	578	32,407
Foreign currency /a	167	13,533	379	23,991	375	36,498	498	45,958	148	19,072
<b>Total Equipment Loans</b>	<b>1,408</b>	<b>32,288</b>	<b>2,096</b>	<b>45,654</b>	<b>2,826</b>	<b>79,136</b>	<b>3,459</b>	<b>111,097</b>	<b>726</b>	<b>51,479</b>
Working capital loans	190,062	1,174,228	240,657	1,544,177	329,318	2,222,772	491,741	3,442,192	354,476	3,372,540
(Net working capital loans) /b		(25,240)		(47,791)		(71,786)		(156,244)		(167,661)
<b>Total Approvals</b>	<b>191,470</b>	<b>1,206,516</b>	<b>242,753</b>	<b>1,589,831</b>	<b>332,144</b>	<b>2,301,908</b>	<b>495,200</b>	<b>3,553,289</b>	<b>355,202</b>	<b>3,424,019</b>
<b>Commitments</b>										
Equipment loans										
Domestic currency	1,241	18,755	1,717	21,663	2,415	42,638	2,961	65,139	578	32,407
Foreign currency /a	171	13,589	349	21,326	438	39,229	465	44,433	158	17,254
<b>Total Equipment Loans</b>	<b>1,412</b>	<b>32,344</b>	<b>2,066</b>	<b>42,989</b>	<b>2,889</b>	<b>81,867</b>	<b>3,426</b>	<b>109,572</b>	<b>736</b>	<b>49,661</b>
Working capital loans	190,062	1,174,228	240,657	1,544,177	329,318	2,222,772	491,741	3,442,192	354,476	3,372,540
<b>Total Commitments</b>	<b>191,474</b>	<b>1,206,572</b>	<b>242,723</b>	<b>1,587,166</b>	<b>332,207</b>	<b>2,304,639</b>	<b>495,167</b>	<b>3,551,764</b>	<b>355,212</b>	<b>3,422,201</b>
<b>Disbursements</b>										
Equipment loans										
Domestic currency	-	18,755	-	21,633	-	42,638		65,139		32,407
Foreign currency /a	-	13,777	-	21,618	-	42,554		30,605		60,600
<b>Total Equipment Loans</b>	<b>-</b>	<b>32,532</b>	<b>-</b>	<b>43,281</b>	<b>-</b>	<b>85,192</b>		<b>95,744</b>		<b>93,007</b>
Working capital loans /c	-	1,174,228	-	1,544,177	-	2,222,772		3,442,192		3,372,540
<b>Total Disbursements</b>	<b>-</b>	<b>1,206,760</b>	<b>-</b>	<b>1,587,458</b>	<b>-</b>	<b>2,307,964</b>		<b>3,537,936</b>		<b>3,465,547</b>
<b>Repayments</b>										
Equipment loans										
Domestic currency	-	11,632	-	10,235	-	14,884		15,110		17,163
Foreign currency /a	-	4,303	-	6,149	-	8,280		14,862		15,523
<b>Total Equipment Loans</b>	<b>-</b>	<b>15,935</b>	<b>-</b>	<b>16,384</b>	<b>-</b>	<b>23,164</b>		<b>29,972</b>		<b>32,686</b>
Working capital loans	-	1,148,988	-	1,496,386	-	2,150,986		3,285,948		3,204,879
<b>Total Repayments</b>	<b>-</b>	<b>1,164,923</b>	<b>-</b>	<b>1,512,770</b>	<b>-</b>	<b>2,174,150</b>		<b>3,315,920</b>		<b>3,237,565</b>
<b>Loans Outstanding</b>										
Equipment loans										
Domestic currency	2,364	33,429	2,842	44,857	3,538	72,610	4,217	122,639	4,203	137,883
Foreign currency /a	745	42,863	1,065	58,332	1,463	101,163	1,669	116,906	1,813	161,983
<b>Total Equipment Loans</b>	<b>3,109</b>	<b>76,292</b>	<b>3,907</b>	<b>103,189</b>	<b>5,001</b>	<b>173,773</b>	<b>5,886</b>	<b>239,545</b>	<b>6,016</b>	<b>299,866</b>
Working capital loans /c	36,207	157,910	37,838	205,701	42,679	283,094	57,589	439,338	71,509	606,999
<b>Total Loans Outstanding</b>	<b>39,316</b>	<b>234,202</b>	<b>41,745</b>	<b>308,890</b>	<b>47,680</b>	<b>456,867</b>	<b>63,475</b>	<b>678,883</b>	<b>77,525</b>	<b>906,865</b>

/a All won equivalent foreign currency figures are based on the actual exchange rates between the won and the mix of foreign currencies disbursed (for the US\$ this was \$1 = W 485 throughout), or in the case of repayments, the particular mix of foreign currencies actually repaid, in any given year.

/b Disbursements less Repayments.

/c Breakdown of working capital loans disbursed and outstanding:

	Discounting		Overdrafts		General working capital loans		Total	
	Disbursed	Outstanding	Disbursed	Outstanding	Disbursed	Outstanding	Disbursed	Outstanding
1976	74,284	14,199	642,115	9,945	457,829	133,766	1,174,228	157,910
1977	107,521	19,262	801,669	13,740	634,987	172,698	1,544,177	205,701
1978	143,807	31,223	1,286,849	13,443	792,116	238,428	2,222,772	283,094
1979	344,115	74,592	1,909,705	20,472	1,188,372	344,274	3,442,192	439,338
1980 (Sept. 30)	402,434	105,046	1,713,375	22,438	1,256,731	479,515	3,372,540	606,999

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THE SMALL AND MEDIUM INDUSTRY BANK

Summary of Guarantee Operations, 1976-1980 (Sept. 30)  
(In Won million)

	<u>1976</u>		<u>1977</u>		<u>1978</u>		<u>1979</u>		<u>1980 (Sept. 30)</u>	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<u>Guarantees Issued</u>										
Short-term	5,617	58,912	5,910	64,068	6,534	87,834	8,150	93,411	5,889	73,444
Long-term	4	111	24	260	6	246	1	145	2	176
<u>Total</u>	<u>5,621</u>	<u>59,023</u>	<u>5,934</u>	<u>64,328</u>	<u>6,540</u>	<u>88,080</u>	<u>8,151</u>	<u>93,556</u>	<u>5,891</u>	<u>73,620</u>
<u>Guarantees Redeemed</u>										
Short-term	5,422	58,939	5,606	61,013	6,275	83,006	8,723	92,981	5,530	71,196
Long-term	14	204	15	227	25	154	2	162	1	145
<u>Total</u>	<u>5,436</u>	<u>59,143</u>	<u>5,621</u>	<u>61,240</u>	<u>6,300</u>	<u>83,160</u>	<u>8,725</u>	<u>93,143</u>	<u>5,531</u>	<u>71,341</u>
<u>Guarantees Outstanding</u>										
Short-term	699	4,381	1,003	7,436	1,262	12,264	689	12,694	1,048	14,942
Long-term	12	37	21	70	2	162	1	145	2	176
<u>Total</u>	<u>711</u>	<u>4,418</u>	<u>1,024</u>	<u>7,506</u>	<u>1,264</u>	<u>12,426</u>	<u>690</u>	<u>12,839</u>	<u>1,050</u>	<u>15,118</u>
(Of which in foreign exchange)		(2,751)		(4,920)		(7,776)	(256)	(5,500)	(591)	(5,051)
Advances on guarantees		64		540		278		1,019		1,858
Total guarantees affected		154		1,140		1,392		1,104		1,953
(As % of total outstanding guarantees)		3.5		15.2		11.2		8.6		12.9

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## THE SMALL AND MEDIUM INDUSTRY BANK

Characteristics of Term Loans Committed: 1978-80 (June 30)  
(In won million)

	1978						1979						1980 (June-Sept)					
	Local currency			Foreign currency			Local currency			Foreign currency			Local currency			Foreign currency		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
<b>A. Nature of Projects</b>																		
New	424	6,985	16.4	85	8,376	21.4	230	7,896	12.1	72	7,153	16.1	51	3,792	11.7	14	2,692	15.6
Existing	2,027	35,653	83.6	353	30,853	78.6	1,779	57,243	87.9	393	37,280	83.9	527	28,615	88.3	144	14,562	84.4
<b>Total</b>	<b>2,451</b>	<b>42,638</b>	<b>100.0</b>	<b>438</b>	<b>39,229</b>	<b>100.0</b>	<b>2,009</b>	<b>65,139</b>	<b>100.0</b>	<b>465</b>	<b>44,433</b>	<b>100.0</b>	<b>578</b>	<b>32,407</b>	<b>100.0</b>	<b>158</b>	<b>17,254</b>	<b>100.0</b>
<b>B. Sectoral Distribution</b>																		
Manufacturing																		
-Food and beverage	68	988	2.3	9	342	0.9	62	1,559	2.4	10	1,444	3.2	26	1,547	4.8	6	823	4.8
-Textile, wearing apparel & leather	579	11,946	28.0	99	7,619	19.4	493	14,200	21.8	103	9,031	20.3	112	5,142	15.9	33	3,665	21.2
-Wood and wood products	194	2,611	6.1	6	362	0.9	32	1,038	1.6	8	1,247	2.8	9	516	1.6	14	337	2.0
-Paper, paper products and printing	49	822	1.9	26	4,257	10.9	147	4,157	6.4	31	5,049	11.4	25	1,378	4.2	12	1,209	7.0
-Chemicals, petroleum, coal, rubber & plastic	381	6,243	14.6	53	4,786	12.2	281	9,222	14.1	48	5,810	13.1	118	5,853	18.1	7	975	5.6
-Nonmetallic mineral products	177	2,276	5.3	11	986	2.5	127	2,988	4.6	15	1,712	3.8	36	2,092	6.4	7	525	3.0
-Basic metals	189	2,847	6.8	6	832	2.1	134	4,027	6.2	8	1,184	2.7	31	2,394	7.4	4	166	1.0
-Metal products, machinery & equipment	773	14,212	33.4	162	12,984	33.1	639	26,758	41.1	198	15,808	35.6	166	10,302	31.8	53	5,951	34.5
-Others	38	631	1.5	13	685	1.7	90	998	1.5	18	842	1.9	24	1,635	5.0	7	536	3.1
<b>Total Manufacturing</b>	<b>2,448</b>	<b>42,576</b>	<b>99.9</b>	<b>385</b>	<b>32,853</b>	<b>83.7</b>	<b>2,005</b>	<b>64,947</b>	<b>99.7</b>	<b>439</b>	<b>42,127</b>	<b>94.8</b>	<b>547</b>	<b>30,859</b>	<b>95.2</b>	<b>143</b>	<b>14,187</b>	<b>82.2</b>
Mining	3	62	0.1	2	110	0.3	4	192	0.3	6	408	0.9	3	123	0.4	2	102	0.6
Construction	-	-	-	43	5,017	12.8	-	-	-	9	560	1.3	2	100	0.3	7	1,627	9.5
Transportation	-	-	-	3	398	1.0	-	-	-	9	1,273	2.9	24	1,227	3.8	3	1,124	6.5
Service and commerce	-	-	-	5	851	2.2	-	-	-	2	65	0.1	-	-	-	3	214	1.2
Others	-	-	-	-	-	-	-	-	-	-	-	-	2	98	0.3	-	-	-
<b>Total</b>	<b>2,451</b>	<b>42,638</b>	<b>100.0</b>	<b>438</b>	<b>39,229</b>	<b>100.0</b>	<b>2,009</b>	<b>65,139</b>	<b>100.0</b>	<b>465</b>	<b>44,433</b>	<b>100.0</b>	<b>578</b>	<b>32,407</b>	<b>100.0</b>	<b>158</b>	<b>17,254</b>	<b>100.0</b>
<b>C. Geographical Distribution</b>																		
Seoul City	736	12,705	29.8	185	14,082	35.9	538	22,740	34.9	153	14,620	32.9	172	11,145	34.4	42	4,201	24.4
Kyung-gi Province	432	7,412	17.4	81	6,999	17.8	498	17,738	27.2	149	11,423	25.7	149	9,318	28.8	34	4,235	24.5
South Chungcheong Province	147	2,801	6.6	23	3,225	8.3	93	2,757	4.2	20	2,165	4.9	18	505	1.5	8	1,094	6.3
North Chungcheong Province	23	385	0.9	12	1,372	3.5	49	1,236	1.9	11	695	1.6	16	934	2.9	3	200	1.2
Kang Won Province	18	360	0.8	4	98	0.2	42	454	0.7	4	198	0.4	8	270	0.8	3	121	0.7
South Jeon Ra Province	81	1,586	3.7	18	1,637	4.2	80	1,833	2.8	27	1,472	3.3	50	1,972	6.1	12	1,544	8.9
North Jeon Ra Province	75	1,075	2.5	4	123	0.3	61	1,790	2.7	2	252	0.6	10	455	1.4	4	120	0.7
South Kyungsang Province	83	1,770	4.2	18	2,650	6.8	92	3,040	4.7	18	2,240	5.0	25	1,382	4.3	10	447	2.6
North Kyungsang Province	425	6,687	15.7	31	3,705	9.4	306	7,721	11.9	44	6,055	13.6	98	5,019	15.5	30	3,776	21.9
Pusan City	423	7,712	18.1	62	5,338	13.6	247	5,787	8.9	37	5,313	12.0	29	1,293	4.0	12	1,516	8.8
Cheju Province	8	145	0.3	-	-	-	3	43	0.1	-	-	-	3	114	0.3	-	-	-
<b>Total</b>	<b>2,451</b>	<b>42,638</b>	<b>100.0</b>	<b>438</b>	<b>39,229</b>	<b>100.0</b>	<b>2,009</b>	<b>65,139</b>	<b>100.0</b>	<b>465</b>	<b>44,433</b>	<b>100.0</b>	<b>578</b>	<b>32,407</b>	<b>100.0</b>	<b>158</b>	<b>17,254</b>	<b>100.0</b>
<b>D. Size of Loans</b>																		
Up to Won 1 M	6	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Won 1 M up to Won 10 M	973	5,740	13.5	13	89	0.2	527	4,338	6.7	6	52	0.1	53	452	1.4	-	-	-
Won 10 M up to Won 30 M	1,127	17,079	40.1	94	2,193	5.6	850	13,253	20.3	78	1,966	4.4	220	4,746	14.6	37	1,076	6.2
Won 30 M up to Won 50 M	203	9,036	21.2	78	3,547	9.1	360	16,976	26.1	88	3,654	8.2	119	5,359	16.5	35	1,298	7.5
Won 50 M up to Won 100 M	101	5,777	13.5	117	9,739	24.8	195	15,921	24.4	154	13,131	29.6	122	9,932	30.6	36	3,223	18.7
Won 100 M up to Won 150 M	34	3,688	8.6	87	11,195	28.6	64	10,720	16.5	86	12,043	27.1	30	4,241	13.1	13	1,792	10.4
Won 150 M up to Won 300 M	7	1,313	3.1	43	9,950	25.3	10	2,553	3.9	48	11,935	26.9	32	7,065	21.9	25	4,433	25.7
Over W 300 M	-	-	-	6	2,516	6.4	3	1,378	2.1	5	1,652	3.7	2	612	1.9	12	5,432	31.5
<b>Total</b>	<b>2,451</b>	<b>42,638</b>	<b>100.0</b>	<b>438</b>	<b>39,229</b>	<b>100.0</b>	<b>2,009</b>	<b>65,139</b>	<b>100.0</b>	<b>465</b>	<b>44,433</b>	<b>100.0</b>	<b>578</b>	<b>32,407</b>	<b>100.0</b>	<b>158</b>	<b>17,254</b>	<b>100.0</b>

	1978						1979						1980 (June-Sept)					
	Local currency			Foreign currency			Local currency			Foreign currency			Local currency			Foreign currency		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
<b>E. Duration of Loans</b>																		
Up to 1 year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Over 1 yr up to 3 yrs	121	1,796	4.2	8	64	0.2	337	9,125	14.0	48	1,813	4.1	25	803	2.4	27	2,302	13.3
Over 3 yrs up to 5 yrs	1,018	15,803	37.1	150	9,019	23.0	605	18,304	28.1	94	7,466	16.8	255	13,742	42.4	38	3,662	21.2
Over 5 yrs up to 7 yrs	701	12,894	30.2	115	8,809	22.5	664	22,402	34.4	138	13,862	31.2	168	10,281	31.7	78	8,862	51.3
Over 7 yrs up to 10 yrs	611	12,145	28.5	131	12,880	32.8	403	15,308	23.5	148	16,354	36.8	130	7,581	23.5	15	2,428	14.1
Over 10 yrs up to 15 yrs	-	-	-	34	8,457	21.5	-	-	-	37	4,938	11.1	-	-	-	-	-	-
<b>Total</b>	<b>2,451</b>	<b>42,638</b>	<b>100.0</b>	<b>438</b>	<b>39,229</b>	<b>100.0</b>	<b>2,009</b>	<b>65,139</b>	<b>100.0</b>	<b>465</b>	<b>44,433</b>	<b>100.0</b>	<b>578</b>	<b>32,407</b>	<b>100.0</b>	<b>158</b>	<b>17,254</b>	<b>100.0</b>
<b>F. Subborrower Asset</b>																		
(Total) Size /a	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Up to Won 10 M	2	20	-	2	49	0.1	-	-	-	-	-	-	-	-	-	-	-	-
Won 10 M up to Won 30 M	359	4,529	10.6	22	1,508	3.8	15	137	0.2	12	380	0.9	9	550	1.7	1	40	0.2
Won 30 M up to Won 50 M	440	6,191	14.5	26	2,268	6.7	52	642	1.0	17	1,215	2.7	20	680	2.1	4	1,220	7.0
Won 50 M up to Won 100 M	684	11,039	25.9	75	5,350	13.5	379	6,790	10.4	44	3,659	8.2	64	2,916	9.0	15	1,484	8.6
Won 100 M up to Won 300 M	667	13,121	30.8	132	9,740	24.6	960	27,375	42.0	153	15,277	34.4	250	13,190	40.7	60	4,583	26.6
Won 300 M up to Won 500 M	234	5,542	13.0	111	11,545	29.2	485	21,946	33.7	162	13,735	30.9	130	8,393	25.9	30	4,066	23.6
Over W 500 M	65	2,196	5.2	70	8,769	22.1	118	8,249	12.7	77	10,167	22.9	105	6,678	20.6	40	5,866	34.0
<b>Total</b>	<b>2,451</b>	<b>42,638</b>	<b>100.0</b>	<b>438</b>	<b>39,229</b>	<b>100.0</b>	<b>2,009</b>	<b>65,139</b>	<b>100.0</b>	<b>465</b>	<b>44,433</b>	<b>100.0</b>	<b>578</b>	<b>32,407</b>	<b>100.0</b>	<b>158</b>	<b>17,254</b>	<b>100.0</b>
<b>G. Subborrower Employment</b>																		
(Size) /a	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Up to 50 works	429	6,810	16.1	124	11,135	28.3	364	9,884	15.2	69	7,428	16.7	175	9,010	27.8	45	4,495	26.1
Over 50 to 100 workers	794	12,896	30.2	63	4,185	10.7	684	19,740	30.3	128	11,045	24.9	190	9,860	30.4	36	3,834	22.2
Over 100 to 200 workers	908	15,957	37.4	141	10,180	25.9	636	21,954	33.7	178	16,070	36.2	154	9,997	29.6	56	6,353	36.8
Over 200 to 300 workers	290	6,103	14.3	62	5,831	14.9	304	12,489	19.2	85	9,169	20.6	52	3,105	9.6	20	2,524	14.6
Over 300 to 500 workers	29	813	1.9	42	6,714	17.1	20	922	1.4	5	721	1.6	7	835	2.6	1	48	0.3
Over 500 workers	1	60	0.1	6	1,184	3.1	1	150	0.2	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,451</b>	<b>42,639</b>	<b>100.0</b>	<b>438</b>	<b>39,229</b>	<b>100.0</b>	<b>2,009</b>	<b>65,139</b>	<b>100.0</b>	<b>465</b>	<b>44,433</b>	<b>100.0</b>	<b>578</b>	<b>32,407</b>	<b>100.0</b>	<b>158</b>	<b>17,254</b>	<b>100.0</b>
<b>H. Clientele Spread as of September 30, 1980 /b</b>																		
	Foreign currency			Domestic Currency			Working capital loans											
	No. of clients	Amount	%	No. of clients	Amount	%	No. of clients	Amount	%	No. of clients	Amount	%	No. of clients	Amount	%	No. of clients	Amount	%
Clients with one loan only	641	51,025	31.5	814	37,366	27.1	7,868	80,731	13.3									
Clients with two loans	203	23,488	14.5	530	25,784	18.7	2,776	52,809	8.7									
Clients with three loans	138	22,851	14.1	432	19,442	14.1	2,844	143,252	23.6									
Clients with four loans	279	64,619	39.9	677	55,291	40.1	3,542	330,207	54.4									
<b>Total</b>	<b>1,261</b>	<b>161,983</b>	<b>100.0</b>	<b>2,453</b>	<b>137,883</b>	<b>100.0</b>	<b>17,030</b>	<b>606,999</b>	<b>100.0</b>									
<b>I. Type of Borrower</b>																		
	1980 (June-Sept)																	
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
Joint stock companies	337	21,647	66.8	93	12,113	70.2												
Partnerships	28	583	1.8	19	431	2.5												
Sole proprietorships	206	9,496	29.3	46	4,710	27.3												
Corporations, etc.	7	681	2.1	-	-	-												
<b>Total</b>	<b>578</b>	<b>32,407</b>	<b>100.0</b>	<b>158</b>	<b>17,254</b>	<b>100.0</b>												

/a At the time of loan application to SMIB.

/b On an outstanding basis, based on provisional (unaudited) figures.

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Partial Economic Indicators of  
Foreign Currency Loans Approved, 1976-80 (Sept. 30) /a

	1976	1977	1978	1979	Sept. 30, 1980	1976-80 (Sept. 30)
Number of projects	127	140	208	296	148	919
Total project cost (W million)	31,442	31,786	46,601	64,123	37,494	211,446
Amount of SMIB's financing (W million) /b	16,892	17,162	27,167	39,386	21,539	122,146
Share of SMIB's financing (%)	53.7	54.0	58.3	61.4	57.4	57.8
Incremental annual sales (W million) /c	63,414	76,931	87,949	166,907	88,721	483,922
Incremental annual value added (W million) /c	17,343	26,150	31,544	52,060	28,665	155,762
Direct additional employment (number) /c	5,601	5,699	5,883	5,842	3,360	26,385
Incremental annual gross exports (\$ million) /c	71.9	43.0	38.6	41.7	36.6	231.8
Increase in fixed assets (W million)	24,468	24,535	38,973	49,357	30,266	167,599
<u>Economic Indicators</u>						
Sales per additional employee (W thousand)	11,322	13,499	14,950	28,570	26,405	18,340
Value added per additional employee (W thousand)	3,096	4,588	5,362	8,911	8,531	5,903
Fixed assets per additional employee (W thousand)	4,368	4,305	6,625	8,449	9,008	6,352
Fixed assets per additional employee (US\$)	9,007	8,876	13,660	17,421	14,412	
Ratio of sales to fixed assets	2.6	3.1	2.3	3.4	2.9	2.9
Ratio of value added to fixed assets	0.7	1.1	0.8	1.1	0.9	0.9
Ratio of value added to sales	0.3	0.3	0.4	0.3	0.3	0.3
Export share of sales (%)	55.0	27.1	21.3	12.1	25.8	

/a Based on projections made at the time of appraisal. This table refers only to projects financed under official lines of credit.

/b An exchange rate of \$1 = W 485 is used for 1976-79 and \$1 = W 625 for 1980.

/c Based on estimates of initial capacity operations, which is approximately equal to 80% of full capacity operations.

AEP Projects Department  
March 1, 1981



## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Subprojects Approved Under IBRD Loan No. 1749-KO  
(As of September 30, 1980)

Subborrower	Industry	Production line New/Exp.	At loan application		Total project cost		SMIB's financing		Incre- mental annual sales (W mln)	Incre- mental annual exports (US\$ '000)	Incre- mental employ- ment	Fixed in- vestment cost per job
			Total assets (W mln)	Total employ- ment	Total cost -- (W mln)--	Fixed cost	Local (W mln)	Foreign (US\$ '000)				
1. Sam Sung Concrete Co., Ltd.	Concrete	Exp.	350	101	650	378	40	440	3,264	-	41	9.22
2. Koryo Native Paper Co.	Paper	Exp.	69	31	73	71	-	113	90	-	3	23.67
3. Sunil Synthetic Fiber Co.	Textile	Exp.	142	36	44	44	-	81	203	-	6	7.33
4. O-Sung Ind. Co.	Service	Exp.	109	60	100	100	-	150	97	-	4	25.00
5. Mi Sung Chemical Co.	Textile	Exp.	214	35	220	198	-	317	276	-	5	39.60
6. Shin Poong Pharm. Co.	Pharmacy	Exp.	870	170	32	32	-	51	310	-	16	2.00
7. Tong Seong Chemical Engr. & Inc. Co., Ltd.	Metal	New	31	7	440	429	-	443	960	-	44	9.75
8. Dong Yang Export Ind. Co.	Plastic	Exp.	133	37	224	120	-	162	600	-	25	4.80
9. Il Shin Photo Industrial Co.	Service	Exp.	129	17	85	57	-	78	612	-	10	5.70
10. Kwang Heung Cotton Factory Co.	Textile	Exp.	129	27	29	29	-	46	86	-	6	4.80
11. Sam Woung Enterprise Co.	Machinery	Exp.	135	28	159	106	-	178	669	-	16	6.63
12. Myung Jin Printing Co., Ltd.	Printing	Exp.	166	66	242	211	-	340	579	-	2	10.55
13. Sung San Fodder Co., Ltd.	Animal feeds	New	78	-	357	240	-	480	476	-	30	8.00
14. Shin Do Auto Ind., Co.	Service	Exp.	165	67	51	51	-	77	45	-	2	25.50
15. Il Yang Transportation Co., Ltd.	Transportation	Exp.	575	70	109	103	-	143	204	-	-	0.00
16. Yu Poong Printing Co., Ltd.	Printing	Exp.	75	74	167	167	-	269	214	-	7	23.86
17. Hyup Dong Const., Co.	Construction	Exp.	322	13	48	48	-	76	55	-	2	24.00
18. Dae Young Industrial Co.	Service	Exp.	158	19	54	51	-	75	72	-	16	3.19
19. Dae Ku Reconditioning Co.	Service	Exp.	87	117	60	51	-	76	65	-	17	3.00
20. Sung Hwa Industrial Co.	Textile	Exp.	310	78	217	217	-	332	143	-	35	6.20
21. Hong Chang Industrial Co.	Animal feeds	Exp.	98	40	30	24	-	50	707	-	10	2.40
22. Hankuk Fire Appliance Mfg. Works	Metal	Exp.	125	30	21	16	-	33	174	-	17	0.94
23. Woo Bon Maintenance Co., Ltd.	Service	Exp.	338	61	54	52	-	77	48	-	2	26.00
24. So Moon Dang Printing Co.	Printing	Exp.	101	42	61	61	-	99	55	-	-	-
25. Hyun Dae Ind. Co.	Service	Exp.	102	67	58	58	-	87	51	-	6	9.67
26. Hap Dong Ind. Co.	Service	Exp.	119	27	50	50	-	75	71	-	16	3.13
27. Sin Jin Moto Ind. Co.	Service	Exp.	137	80	134	134	-	200	87	-	6	22.33
28. Jeon Yang Industrial Co., Ltd.	Metal	Exp.	672	45	84	82	-	120	146	-	9	9.11
29. Sam Kwang Printing Co.	Printing	Exp.	391	56	188	184	-	300	147	-	10	18.40
30. Jung Hwa Printing Co.	Printing	Exp.	114	34	188	184	-	302	246	-	6	30.67
31. Baek Yang Stainless Ind. Co., Ltd.	Metal	Exp.	633	290	97	97	-	161	733	-	11	8.82
32. Kwang Nam Auto Ind. Co.	Service	Exp.	69	81	20	20	-	31	43	-	26	0.77
33. Dong Myung Ind. Co.	Service	Exp.	87	23	50	50	-	75	34	-	28	1.79
34. Nan Do electric Wire Co.	Metal	Exp.	370	37	185	76	-	91	1,809	-	20	3.80
35. Ah Bo Industrial Co., Ltd.	Machine	Exp.	265	14	42	42	-	69	-	-	5	3.40
36. Ea Hwa Plywood Co.	Plywood Co.	New	123	5	388	292	-	330	1,842	2,165	120	2.43
37. Kyung In Machinery Co.	Machinery	Exp.	102	27	34	28	-	45	202	-	3	9.33
38. Sam Seung Printing Co.	Printing	Exp.	137	13	135	128	-	207	232	-	7	18.29
39. Euy Hak Shin Bo	Printing	Exp.	130	39	20	20	-	32	-	-	4	5.00

Subborrower	Industry	Production line New/Exp.	At loan application		Total project cost		SMIB's financing		Incre- mental annual sales (W mln)	Incre- mental annual exports (US\$ '000)	Incre- mental employ- ment	Fixed in- vestment cost per job
			Total assets (W mln)	Total employ- ment	Total cost -- (W mln)--	Fixed cost	Local	Foreign (US\$ '000)				
							(W mln)	(US\$ '000)				
40. Kyung Buk Cargo Association Reconditioning Co., Lt.	Service	Exp.	120	72	66	50	-	75	107	-	23	2.17
41. Mia Moolsan Co., Ltd.	Plastic	Exp.	269	52	78	68	-	109	450	-	12	5.67
42. Jin Young Metal Industrial Co., Ltd.	Metal	Exp.	103	31	103	77	-	90	589	-	10	7.70
43. Kwang Heung Metal Co.	Metal	Exp.	183	48	67	24	-	40	0	-	3	8.00
44. Mi Seong Animal Feeds Co.	Animal Feeds	Exp.	103	14	89	66	10	77.5	435	-	23	2.87
45. Dong Jin Chemical Industrial Co.	Plastic	New	27	-	118	51	20	57	821	-	13	3.92
46. Han Jin Machinery Works Co.	Metal	Exp.	156	12	74	61	-	88	281	-	8	7.63
47. Kwang Myong Toppan Moore Co., Ltd.	Printing	Exp.	326	40	246	226	-	220	482	110	13	17.38
48. Samshin Iron Industrial Co., Ltd.	Metal	Exp.	610	86	132	132	-	220	700	-	32	4.13
49. Sam Woo Chain Ind. Co., Ltd.	Metal	Exp.	220	52	292	197	40	328	1,545	-	14	14.07
50. Sam Hwa Construction Equipment Co., Ltd.	Construction	Exp.	64	11	106	106	-	171	99	-	6	17.67
51. Seoul Vehicle Ind. Co., Ltd.	Service	Exp.	107	80	60	51	-	74	178	-	12	4.25
52. Kyung Dong Ind. Co., Ltd.	Service	Exp.	74	84	91	50	-	74	341	-	14	3.57
53. Jin Hap Precision & Ind. Co., Ltd.	Machinery	Exp.	945	121	42	42	-	70	736	602	10	4.20
54. Kuk Dong Paper Mfg. Co.	Paper	Exp.	271	72	21	17	-	27	-	-	1	17.00
55. Melim Package, Inc.	Paper	New	93	9	106	68	-	83	810	-	21	3.24
56. Chun Il Ind. Co.	Service	Exp.	154	65	50	49	10	72	78	-	14	3.50
57. Pyung Gok Industrial Co., Ltd.	Granite	Exp.	303	173	49	49	-	80	160	-	-	-
58. Young Nam Heavy Machinery Co., Ltd.	Construction	Exp.	37	7	54	54	-	96	132	-	8	6.75
59. Dong Yang Towel Ind. Co.	Textile	Exp.	361	215	480	456	180	245	658	346	29	15.72
60. Hyup Shin Wool Textile Co., Ltd.	Textile	Exp.	114	53	188	176	-	265	228	-	3	58.67
61. Ill Wha Construction Co., Ltd.	Construction	Exp.	144	12	47	47	-	76	121	-	3	15.67
62. Han Sung Textile Co.	Textile	Exp.	146	53	197	197	-	249	131	-	17	11.59
63. Sung Jin Packing Co., Ltd.	Paper	Exp.	805	150	684	669	150	230	2,127	1,345	100	6.69
64. Kum Young Printing Co.	Printing	New	70	1	44	43	-	70	50	-	5	8.60
65. Ewoo Book Binding Co.	Book-binding	Exp.	315	192	182	106	-	170	126	-	5	21.20
66. Sam Hong Industrial Co.	Service	Exp.	106	16	47	47	-	75	77	-	2	23.50
67. Yook Kong Sa Maintenance Co.	Textile	Exp.	139	22	53	50	-	76	49	-	18	2.78
68. Young Shin Industrial Co.	Service	Exp.	52	59	49	49	-	74	46	-	14	3.50
69. Yong Nam Iron Casting Ind. Co.	Cast-iron	Exp.	329	95	356	356	210	158	531	-	14	25.43
70. Hoi Sang Sa Co.	Printing	Exp.	227	84	25	21	-	33	338	-	2	10.50
71. Han Shin Industrial Enterprise Co.	Plastic	Exp.	221	38	173	108	-	160	270	-	5	21.60
72. Sam Sung Industrial Co.	Metal	Exp.	135	22	54	36	-	58	232	-	7	5.14
73. Dong Nam Timber Ind. Co., Ltd.	Timber	Exp.	745	279	524	455	90	488	1,200	-	73	6.23
74. Hyup Sung Tape Ind. Co., Ltd.	Chemical	Exp.	876	78	234	76	-	119	-	-	2	38.00
75. Korea First Gage, Ltd.	Metal	New	480	13	473	250	20	419	1,644	-	131	1.91
76. Shin Heung Precision Co., Ltd.	Electronic	Exp.	600	230	212	204	-	340	250	-	13	15.69
77. Dookwang Industrial Co., Ltd.	Cut-stone	New	75	7	192	168	-	156	475	-	22	7.64
78. Dae Han Artistic Printing Co., Ltd.	Printing	Exp.	440	103	294	235	-	393	-	-	7	33.57
79. Sae Han Copal Co., Ltd.	Electronic	Exp.	617	283	178	178	-	220	1,745	3,500	80	2.23
80. Yun Hap Ampoule Co., Ltd.	Glass	Exp.	384	120	108	91	-	145	270	-	16	5.69
81. Shin Chang Electrics Co., Ltd.	Metal	Exp.	674	203	254	254	197	75.6	1,124	-	19	13.37

Subborrower	Industry	Production line New/Exp.	At loan application		Total project cost		SMIB's financing		Incre- mental annual sales (W mln)	Incre- mental annual exports (US\$'000)	Incre- mental employ- ment	Fixed in- vestment cost per job
			Total assets (W mln)	Total employ- ment	Total cost -- (W mln)--	Fixed cost	Local (W mln)	Foreign (US\$'000)				
82. Jung Il Industrial Co., Ltd.	Metal	Exp.	934	170	52	52	-	85	-	-	-	-
83. Chun Woo Maintenance Co., Ltd.	Service	Exp.	79	96	51	51	-	74	140	-	-	-
84. Sae Ki Industrial Co., Ltd.	Metal	Exp.	273	119	268	268	70	270	161	-	16	16.75
85. Hanchang Transportation, Incl	Transportation	Exp.	133	160	110	110	-	138	25	-	2	55.00
86. Il Bon Kwang Hak Co.	Optical instruments	Exp.	82	31	55	46	-	74	312	-	13	3.54
87. Seoul Recording Studio Co., Ltd.	Recording	Exp.	188	20	28	26	-	42	71	-	4	6.50
88. Korea Shipping Gazette Co., Ltd.	Printing	Exp.	69	42	197	197	-	320	346	-	16	12.31
89. Jeil Precision Ind. Co., Ltd.	Metal	Exp.	729	80	38	24	-	40	52	-	5	4.80
90. Cho Yang Ind. Co.	Metal	Exp.	254	42	137	137	-	198	241	-	13	10.54
91. Sun Il Electronics Ind. Co., Ltd.	Electronic	Exp.	152	287	108	93	-	150	144	295	3	31.00
92. Jeng-Chang Enterprise Co., Ltd.	Nonmetallic	Exp.	301	120	27	25	-	41	120	-	-6	-
93. Il Yang Ind. Co.	Food	Exp.	85	25	96	28	45	44	415	-	6	4.67
94. Il Kwang Tools Co., Ltd.	Metal	Exp.	297	57	297	250	-	265	431	-	10	25.00
95. Hae Woi Pharm. Ind. Co., Ltd.	Pharmacy	Exp.	829	188	23	23	-	37	782	-	20	1.15
96. Jin Won Industrial Co.	Soap	New	69	-	49	30	20	32	654	-	13	2.31
97. Jeong Oh Development Co., Ltd.	Construction	Exp.	87	31	97	95	-	117	250	-	14	6.79
98. Dae Dong Auto Reconstruction Co., Ltd.	Service	Exp.	222	122	46	45	-	66	101	-	8	5.63
99. Yu Kyeng Construction Co., Ltd.	Construction	Exp.	264	35	111	92	-	150	117	-	9	10.22
100. Hairyuk Machinery Ind. Co.	Machinery	Exp.	785	120	36	36	-	58	753	-	12	3.00
101. Dae Han Iron Industry Co.	Cast-iron	Exp.	162	94	85	66	-	75	139	-	6	11.00
102. Tai Hwa Printing Co.	Printing	Exp.	35	48	31	31	-	50	210	-	4	7.75
103. Dwell Chemical Corp.	Plastic	New	303	10	356	356	-	498	1,088	-	65	5.48
104. Sunil Industrial Co.	Textile	Exp.	106	9	320	282	-	454	317	-	21	13.43
105. Tae Yang Enterprise Co., Ltd.	Transportation	New	33	10	75	75	-	99	249	-	17	4.41
106. Dong Wha Textile Co.	Textile	Exp.	92	47	133	130	-	205	95	-	8	16.25
107. Yushin Electronics Co., Ltd.	Plastic	Exp.	407	19	173	90	-	100	1,189	-	25	3.60
108. Dae Lim Chemical Co.	Plastic	Exp.	80	51	74	64	-	98	193	-	6	10.67
109. Sea Myung Sa	Paper	Exp.	68	31	169	165	-	264	269	-	17	9.71
110. Nam Buk Co., Ltd.	Machinery	New	321	5	349	236	30	195	1,286	-	62	3.81
111. Asia Motor's Co.	Service	Exp.	116	46	45	45	-	67	80	-	10	4.50
112. Daedong Textile-Fabric Ind. Co.	Textile	Exp.	84	29	80	80	-	94	173	-	32	2.50
113. Dae Heung Printing Co.	Printing	Exp.	69	26	67	65	-	106	99	-	6	10.83
114. Keuk Dong Gasket Ind. Co., Ltd.	Metal	Exp.	165	39	19	19	-	30	116	-	2	9.50
115. Dong Yang Industrial Co.	Service	Exp.	214	133	51	50	-	70	319	-	8	6.25
116. Honam Limestone Ind. Co.	Slaked lime	Exp.	134	50	35	35	-	57	54	-	-10	-
117. Choong Ang Animal Diseases & Laboratory	Chemical	Exp.	296	38	131	61	55	98	282	-	6	10.17
118. Hankook Vehicle Industrial Co., Ltd.	Service	Exp.	139	55	91	88	-	66	82	-	19	4.63
119. Omu Electric Mfg. Co.	Electric	Exp.	153	70	157	157	-	250	681	-	16	9.81
120. Kyunggi Industrial Co., Ltd.	Nonmetallic	Exp.	942	159	144	84	-	100	353	-	37	2.27
121. Crown Food Stuffs Industrial Co., Ltd.	Food	Exp.	742	156	262	218	-	289	1,712	-	27	8.07
122. Noxan Engineers Co., Ltd.	Metal	Exp.	736	146	414	395	-	493	1,920	1,000	55	7.18
123. Dong Shin Ind. Co.	Service	Exp.	259	75	59	56	-	70	344	-	9	6.22
124. Sam Chang Machine Industrial Co., Ltd.	Metal	Exp.	449	56	141	141	-	113	891	-	19	7.42

Subborrower	Industry	Production line New/Exp.	At loan application		Total project cost		SMIB's financing		Incre- mental annual sales (W mln)	Incre- mental annual exports (US\$'000)	Incre- mental employ- ment	Fixed in- vestment cost per job
			Total assets (W mln)	Total employ- ment	Total cost (W mln)	Fixed cost (W mln)	Local (W mln)	Foreign (US\$'000)				
125. Dae San Industrial Co., Ltd.	Textile	Exp.	684	76	49	48	-	48	335	530	28	17.10
126. Yung Shin Chemical Co.	Others	Exp.	109	12	40	30	-	32	264	-	10	3.00
127. Dae Lim Textile Co., Ltd.	Textile	Exp.	435	27	130	109	-	98	596	915	10	10.90
128. Baik Wang Sa printing Co.	Printing	Exp.	646	80	115	104	-	146	108	-	2	52.00
129. Sam Hwa Foods Co., Ltd.	Food	Exp.	524	77	275	232	-	308	1,675	1,500	17	13.65
130. Sam Jin Ind. Co.	Paper	Exp.	245	37	46	40	-	53	209	-	10	4.00
131. Sam Woo Ind. Co.	Textile	Exp.	874	92	135	135	-	181	328	562	17	7.94
132. Dong Nam Ji Gong Sa Co.	Printing	Exp.	144	20	73	53	-	70	276	-	4	13.25
133. Sae Jung Industrial Co., Ltd.	Textile	New	70	2	133	118	-	157	379	-	25	4.72
134. Jung Hwa Printing Co., Ltd.	Printing	Exp.	275	47	444	366	10	493	1,238	-	8	45.75
135. Sam Sung Metal Co.	Metal	Exp.	100	26	94	94	-	120	305	-	24	3.92
136. Dong Sung Heavy Machinery Co.	Machinery	Exp.	59	10	32	32	-	37	25	-	1	32.00
137. Sam Jin Kye Ryo Co.	Plastic	Exp.	85	35	60	46	-	61	353	-	20	2.30
138. Tai Kwang Co., Ltd.	Textile	New	167	3	740	535	-	173	3,370	5,780	295	1.81
139. Chun Ahn Motors Co.	Service	Exp.	232	166	57	55	-	69	46	-	2	27.50
140. Kun Mun Offset Printing Co.	Printing	Exp.	166	12	160	143	-	191	140	-	4	35.75
141. Sae Il Co., Ltd.	Transportation	Exp.	122	250	56	56	-	74	102	-	2	28.00
142. Sam Jung Glass Industrial Co.	Glass	Exp.	685	243	40	40	-	53	320	56	128	1.43
143. Dong Shin Bolt Industrial Co., Ltd.	Metal	Exp.	507	115	37	37	-	53	200	69	6	6.17
144. Sam On Machinery Co., Ltd.	Machinery	New	233	8	258	141	50	181	1,303	1,303	39	3.62
145. Han Yang Chinaware Mfg. Co.	Ceramics	Exp.	272	306	51	38	-	50	263	402	13	2.92
146. Korea Electric Machinery Industrial Co.	Electric	Exp.	262	74	69	23	-	31	172	-	18	1.28
147. Moo Keuk Co.	Printing	Exp.	147	29	137	136	-	183	173	-	10	13.60
148. Nam Sung Printing Co.	Printing	Exp.	62	32	102	92	-	123	432	-	3	30.67
149. Chun Ill Electric Works Co., Ltd.	Electric	Exp.	555	153	109	109	-	146	682	-	48	2.27
150. Shin Ki Sa Co., Ltd.	Service	Exp.	121	130	55	55	-	67	114	-	7	7.86
151. Dae Yu Construction Co.	Construction	Exp.	396	31	114	114	-	158	113	-	2	57.00
152. Gaya limited	Textile	Exp.	810	100	123	104	-	139	311	500	6	17.33
153. Sam Chang Kong Young Co., Ltd.	Construction	Exp.	392	41	176	176	-	169	151	-	8	22.00
154. Dong Yang Electric Mfg. Co.	Electric	Exp.	858	131	333	189	50	252	2,616	-	66	2.86
155. Seh Heung Construction Co., Ltd.	Construction	Exp.	736	38	86	82	-	109	57	-	6	13.67
156. A Shin Electric Mfg. Co., Ltd.	Machinery	Exp.	314	38	370	312	-	388	1,536	-	26	12.00
157. Dong Gi Ind. Co.	Transportation	Exp.	88	19	55	55	-	68	210	-	4	13.75
158. Shin Heung Printing Co., Ltd.	Printing	Exp.	288	180	372	327	-	435	713	-	10	32.70
159. Sam Jung Enterprise	Others	Exp.	195	30	55	54	-	75	240	-	8	6.75
160. Se Jin Ind. Co., Ltd.	Service	Exp.	133	44	54	54	-	66	160	-	5	10.80
161. Sam Sung Bong Je Ind. Co., Ltd.	Textile	Exp.	191	346	57	57	-	75	141	-	-	-
162. Eastern Medical Herbs Co., Ltd.	Drugs	Exp.	198	28	280	218	-	200	3,158	1,100	75	2.91
163. Dong Hwa Construction Co., Ltd.	Construction	New	88	15	116	72	-	96	57	-	7	10.29
164. Kyung Dong Ind. Co., Ltd.	Nonmetallic	Exp.	377	34	324	242	-	245	806	-	117	2.07
165. Won Il Chemical Co.	Nonmetallic	Exp.	117	21	105	89	-	114	730	-	10	8.90
166. Se-Ki Co., Ltd.	Service	Exp.	422	170	59	54	-	66	117	-	15	3.60

Subborrower	Industry	Production line New/Exp.	At loan application		Total project cost		SMIR's financing		Incre- mental annual sales (W mln)	Incre- mental annual exports (US\$'000)	Incre- mental employ- ment	Fixed in- vestment cost per job
			Total assets (W mln)	Total employ- ment	Total cost -- (W mln)--	Fixed cost --	Local (W mln)	Foreign (US\$'000)				
168. Sae Chang Industry Co.	Service	Exp.	120	115	54	53	-	66	133	-	2	26.50
169. Young Shin Iron Works Co., Ltd.	Machinery	Exp.	728	86	80	80	-	110	271	-	10	8.00
170. Shin Il Offset Printing Co.	Printing	Exp.	179	27	101	97	-	128	179	-	12	8.08
171. Traccon Korea Corporation	Electronic	Exp.	525	296	42	42	-	55	238	342	-	-
172. Dong Yang Geology Ind. Co., Ltd.	Construction	Exp.	117	40	57	43	-	62	215	-	8	5.38
173. Pyun Ahn Concrete Gong Ub Sa	Cement	Exp.	573	22	388	345	-	478	1,986	-	43	8.02
174. Dong Lim Sa Co., Ltd.	Textile	Exp.	229	103	125	122	-	162	710	816	3	40.67
175. Han Il Hwa-sung Co., Ltd.	Plastic	New	365	10	490	450	-	454	1,158	-	49	9.18
176. Choong Nam Chinaware Mfg. Co.	Ceramics	Exp.	95	65	62	62	-	60	65	71	5	12.40
177. Shin Jin Industry Co.	Metal	Exp.	354	40	97	71	-	98	407	-	5	14.20
178. Han Il Chung Chang Ind. Co., Ltd.	Metal	Exp.	722	163	30	30	-	40	411	-	2	15.00
179. Chung's Clinic	Medical	Exp.	352	9	299	285	-	371	437	-	8	35.63
180. Dae Yoo Mining	Mining	Exp.	230	28	128	128	-	167	252	253	24	5.33
181. Sam Lip Ind. Co.	Service	Exp.	64	23	54	54	-	66	38	-	10	5.40
182. Dae A corporation	Metal	Exp.	141	96	87	32	-	44	483	-	55	0.58
183. Do Kwang Co., Ltd.	Ceramic	New	150	3	333	304	-	367	702	350	26	11.69
184. Korea Cottrell Ind. Co., Ltd.	Machinery	Exp.	643	73	48	48	-	63	-	-	6	8.00
185. Kuk Dong automobile Service Co.	Service	Exp.	80	48	89	60	-	72	102	-	8	7.50
186. Crown Pharm. Co.	Drugs	Exp.	287	64	90	90	-	120	280	-	1	90.00
187. Kwang Jin Steel Ind. Co.	Basic metal	New	150	7	239	154	-	158	521	-	25	6.16
188. Chung Sung Je Myun Factory	Textile	Exp.	130	15	67	67	-	83	111	-	3	22.33
189. Chunwoo Transportation Co.	Transportation	Exp.	121	10	158	158	-	160	294	-	16	9.875
190. E-Haing Electric Industry Co., Ltd.	Metal	Exp.	571	45	120	74	20	100	375	629	30	2.47
191. Sam Chun Dang Co., Ltd.	Drugs	Exp.	586	88	190	158	20	147	1,184	-	-20	-
192. Dae Won Co., Ltd.	Limestone	Exp.	224	250	97	97	-	128	324	-	-28	-
193. Po Hang Car Industry Co.	Service	Exp.	118	75	109	99	-	120	103	-	12	8.25
194. Hyup Shin Textile Co.	Textile	New	183	6	395	357	-	408	446	751	27	13.22
195. Jeil Textile Co.	Textile	Exp.	249	99	378	370	-	479	123	-	7	52.86
196. Sang Hyun Printing Co.	Printing	Exp.	255	46	202	201	-	267	308	-	4	50.25
197. Kwang Myung Electric Machinery Mfg. Co.	Electric	Exp.	609	45	151	151	-	204	202	-	6	25.17
198. Sam Sung Industrial Co.	Metal	Exp.	135	29	123	94	-	65	324	-	3	31.33
199. Heung Kuk Heavy Equipment Co., Ltd.	Construction	Exp.	110	7	56	55	-	74	112	-	6	9.17
200. Pung Jun Textile Co., Ltd.	Textile	New	10	-	533	476	-	487	879	1,461	26	18.31
201. Duck Sung Textile Co., Ltd.	Textile	New	10	-	528	471	-	480	879	1,461	26	18.12
202. Dae Lim Textile Co., Ltd.	Textile	New	10	-	528	471	-	480	879	1,461	26	18.12
203. Kyung Bo Glass Industrial Co., Ltd.	Glass	Exp.	399	209	56	56	-	56	214	-	20	2.80
204. Sam Da Industrial Co., Ltd.	Paper	New	125	8	311	269	-	280	344	-	12	22.42
205. Han Kook Plug Ind. Co., Ltd.	Electric	Exp.	808	94	584	584	139	240	1,451	-	14	41.71
206. Koryou Car Ind. Co.	Service	Exp.	81	65	57	57	-	70	36	-	5	11.40
207. Kum Kang Dies Ind. Co.	Metal	Exp.	269	47	66	66	-	58	576	-	22	3.00
208. Jeil Enterprise Co., Ltd.	Metal	Exp.	868	82	145	145	-	111	632	-	16	9.06
209. Sam Young Textile Co.	Textile	Exp.	269	136	658	656	-	465	682	1,026	36	18.22
210. Bu Kwang Woolen Ind. Co.	Textile	Exp.	241	18	455	375	-	410	1,068	1,243	11	34.09

Subborrower	Industry	Production line New/Exp.	At loan application		Total project cost		SMIR's financing		Incre- mental annual sales (W mln)	Incre- mental annual exports (US\$'000)	Incre- mental employ- ment	Fixed in- vestment cost per job
			Total assets (W mln)	Total employ- ment	Total -- (W mln)--	Fixed cost -- (W mln)--	Local (W mln)	Foreign (US\$'000)				
211. Hanil Precision Co.	Electric	Exp.	80	45	97	97	-	125	169	-	6	16.17
212. Chun Ma Textile Ind. Co., Ltd.	Textile	Exp.	729	126	260	232	-	298	191	319	-	-
213. Samil Sizing Co., Ltd.	Textile	New	10	-	404	385	-	341	330	-	31	12.42
214. Samil Corporation	Textile	New	235	15	492	474	-	480	879	1,461	26	18.23
215. Seum Seung Industry Co., Ltd.	Textile	New	111	2	614	544	-	494	693	578	27	20.15
216. Ah Bo Ind. Co., Ltd.	Metal	Exp.	367	24	142	89	-	107	466	-	10	8.90
217. Han Hwa Knitting Co., Ltd.	Textile	Exp.	290	121	149	149	-	190	442	727	13	11.46
218. Yoo Chang Enterprise Co., Ltd.	Plastic	Exp.	715	155	249	249	-	309	1,093	953	21	11.86
219. Tracon Korea Corporation	Metal	Exp.	525	296	135	102	-	128	442	728	3	34.00
220. Dong-Do Carpet Co., Ltd.	Textile	Exp.	777	41	174	79	30	94	917	175	10	7.90
221. Shin Ra Ceramic Industry Co., Ltd.	Ceramics	Exp.	446	13	804	763	95	233	809	1,190	212	3.60
223. Yung Kwang Textile Co.	Textile	New	744	62	64	63	-	80	-	-	4	15.75
224. Heung Ill Chemical Ind. Co.	Plastic	Exp.	37	48	47	47	-	61	90	-	3	15.67
225. Dae Shin Construction Co., Ltd.	Constructon	Exp.	264	23	136	136	-	180	126	-	4	34.00
226. Dong Suh Engineering Co., Ltd.	Construction	Exp.	325	34	325	300	-	400	216	-	4	75.00
227. Korea Refractories Co., Ltd.	Nonmetallic	Exp.	270	107	1,664	1,263	-	900	2,571	-	53	23.83
228. Hung Hae Co., Ltd.	Transportation	Exp.	463	30	1,147	1,088	-	1,500	538	-	8	136.00
229. Korea Gravure Company	Plastic	Exp.	930	46	1,556	1,540	-	1,360	1,032	-	54	28.52
230. Samil Dyeing and Finishing Co.	Textile	Exp.	942	96	1,122	1,033	-	700	2,565	-	52	19.87
231. Daeheung Company	Transportation	Exp.	624	132	877	868	-	1,120	1,100	-	8	108.50
232. Youngbo Chemical Co., Ltd.	Plastic	New	351	9	1,503	1,288	-	960	1,763	-	41	31.41
<u>Total 231 Enterprises</u>			<u>67,813</u>	<u>16,153</u>	<u>43,833</u>	<u>38,597</u>	<u>1,601</u>	<u>43,295</u>	<u>113, 48</u>	<u>38,109</u>	<u>4,250</u>	<u>9.08</u>

AEP Projects Department  
March 1, 1981

## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Summarized Balance Sheets, 1976 - 1980  
(In won million)

As of December 31	1976	1977 (audited)	1978	1979	1980 (unaudited)
<b>Assets</b>					
<b>Current Assets</b>					
Cash and bank deposits /a	83,409	129,652	212,421	248,571	234,171
Investment in securities	8,737	17,387	36,740	70,814	92,141
Of which: NIF bonds	8,736	17,385	36,737	60,811	82,137
Public bonds	1	2	3	3	4
Monetary stabilization bonds	-	-	-	10,000	10,000
Interest receivable	2,921	3,134	4,867	8,110	11,998
Less: Provision for possible losses	-	510	-	440	-
Short-term working capital loans	124,510	159,412	226,900	374,783	543,607
Other current assets	1,279	5,228	3,306	5,596	12,016
<b>Total Current Assets</b>	<b>220,856</b>	<b>314,303</b>	<b>484,234</b>	<b>707,434</b>	<b>893,933</b>
<b>Term Portfolio</b>					
Working capital loans	33,400	46,289	56,194	64,555	149,383
Domestic currency equipment loans	33,429	44,857	72,610	122,639	159,225
Foreign currency loans	42,863	58,332	101,163	116,906	171,677
Of which loans from:					
USAID	1,442	1,085	827	628	504
KfW	1,158	1,713	1,752	1,590	1,580
OECD	4,350	3,357	2,556	1,707	1,144
ADB	22,901	28,502	40,973	44,971	60,420
EXIM	6,421	6,322	6,843	3,814	4,232
IBRD	6,535	12,703	32,476	38,257	66,426
KFX	56	4,650	15,736	25,939	37,371
<b>Total Term Loans</b>	<b>109,692</b>	<b>149,478</b>	<b>229,967</b>	<b>304,100</b>	<b>480,285</b>
Less: Provisions	305	794	300	220	7,000
<b>Net Portfolio</b>	<b>109,387</b>	<b>148,684</b>	<b>229,667</b>	<b>303,880</b>	<b>473,285</b>
Property and equipment	4,580	6,753	9,289	12,932	16,118
Less: Depreciation	1,173	1,409	1,723	2,199	2,918
<b>Net Property and Equipment</b>	<b>3,407</b>	<b>5,344</b>	<b>7,566</b>	<b>10,733</b>	<b>13,200</b>
<b>Other Assets</b>					
Long-term lease deposits	3,277	5,364	8,990	14,706	23,053
Properties acquired through foreclosure	1,515	723	233	260	4,026
Receivable from sale of foreclosed properties	3,767	3,466	2,636	2,094	3,985
<b>Total Other Assets</b>	<b>8,559</b>	<b>9,553</b>	<b>11,859</b>	<b>17,060</b>	<b>31,064</b>
<b>Total Assets</b>	<b>342,209</b>	<b>477,884</b>	<b>733,326</b>	<b>1,039,107</b>	<b>1,411,482</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Short-term deposits	138,751	224,341	353,440	487,543	659,640
Borrowings from BOK	22,050	25,606	20,420	45,108	84,901
Dividends payable	9	8	171	245	2,291
Taxes payable	150	114	72	178	1,557
Due to correspondent banks	8,372	10,180	8,294	18,408	33,584
KFX fund borrowing /b	-	-	13,344	19,368	21,827
Accrued interest and others	27,118	34,681	70,990	91,747	153,606
<b>Total Current Liabilities</b>	<b>196,450</b>	<b>294,930</b>	<b>466,731</b>	<b>662,597</b>	<b>957,406</b>
<b>Long-Term Liabilities</b>					
Long-term deposits	64,151	82,836	118,196	185,600	163,763
Borrowings from GOK	10,842	10,766	11,713	10,320	10,858
Borrowings from NIF	8,523	13,182	23,311	35,306	34,513
Borrowings from IRF	6,131	3,650	2,915	1,843	929
Borrowings from SMIF	-	-	-	19,889	37,613
Foreign currency borrowings /b	43,619	54,264	84,646	89,903	132,289
Of which borrowings from:					
USAID	1,190	854	530	273	-
KfW	1,186	1,812	1,875	1,572	1,558
OECD	5,232	4,163	2,424	1,553	996
ADB	22,850	28,371	40,706	45,008	60,302
EXIM	6,626	6,364	6,719	3,488	3,565
IBRD	6,535	12,700	32,392	38,009	65,898
<b>Total Long-Term Liabilities</b>	<b>133,266</b>	<b>164,698</b>	<b>240,781</b>	<b>342,861</b>	<b>379,965</b>
<b>Equity</b>					
Paid-in share capital	8,060	13,060	20,060	27,060	57,060
Reserves	1,941	2,573	3,203	4,029	10,605
Retained earnings	2,492	2,623	2,551	2,560	6,446
<b>Total Equity</b>	<b>12,493</b>	<b>18,256</b>	<b>25,814</b>	<b>33,649</b>	<b>74,111</b>
<b>Total Liabilities and Equity</b>	<b>342,209</b>	<b>477,884</b>	<b>733,325</b>	<b>1,039,107</b>	<b>1,411,482</b>
<b>Outstanding Guarantees</b>					
Short-term guarantees	4,381	7,436	12,264	12,694	18,949
Long-term guarantees	37	70	162	145	818
<b>Total Guarantees</b>	<b>4,418</b>	<b>7,506</b>	<b>12,426</b>	<b>12,839</b>	<b>19,767</b>
<b>Ratios</b>					
Current ratio	1.1	1.1	1.0	1.1	0.9
Long-term debt/equity /c	9.8:1	8.3:1	8.5:1	9.1:1	4.9:1
Total debt/equity	26.4:1	25.2:1	27.4:1	29.9:1	18:1
Reserves and provisions as % of portfolio /d	2.0%	1.9%	1.4%	1.0%	2.3%

/a Including reserve requirements with BOK.

/b KFX funds are technically made available by the BOK to SMIB on a one-year deposit basis, even though in practice they are renewed automatically. Hence, the KFX liabilities have since 1976 (when SMIB first received these foreign exchange resources) been included under the current liability heading "Accrued Interest and Others," and have been shown as a separate current liability item since 1978 and not as "Long-Term Foreign Currency Borrowings."

/c Including long-term guarantees and savings deposits net of BOK reserve requirements.

/d Total portfolio including guarantees.

AEP Projects Department

KOREA  
THE SMALL AND MEDIUM INDUSTRY BANKSummarized Income Statements, 1976 - 1980  
(In won million)

	1976	1977	1978	1979	1980
	-----	(audited)	-----	-----	(unaudited)
<u>Income</u>					
Interest on loans	31,122	41,152	56,670	90,064	165,659
Foreign currency equipment loans	(3,646)	(4,482)	(7,375)	(11,471)	(18,738)
Domestic currency equipment loans	(3,351)	(5,224)	(7,553)	(13,486)	(26,613)
Working capital loans	(24,125)	(31,446)	(41,742)	(65,107)	(120,308)
Interest on deposits, securities and other	3,383	4,433	13,055	22,337	29,438
Guarantee fees, commissions, etc.	1,900	2,147	1,673	1,989	2,418
Other income	499	-	1,852	1,786	9,854
<u>Total Income</u>	<u>36,904</u>	<u>47,732</u>	<u>73,250</u>	<u>116,176</u>	<u>207,369</u>
<u>Expenses</u>					
Financial expenses	24,648	31,423	51,784	83,810	136,469
Domestic currency borrowings and deposits	(21,064)	(27,118)	(46,604)	(75,068)	(126,126)
Foreign currency borrowings	(2,584)	(4,305)	(5,180)	(8,742)	(10,343)
Administrative and general expenses	10,021	13,042	19,717	27,428	44,848
Of which: wages and salaries	(6,956)	(9,603)	(15,686)	(19,732)	(32,870)
Provisions for doubtful accounts /a	630	1,225	858	383	6,879
Other expenses /b	929	1,137	1,775	3,259	4,774
<u>Total Expenses</u>	<u>36,228</u>	<u>46,827</u>	<u>74,134</u>	<u>114,880</u>	<u>192,970</u>
Income before tax	676	905	832	1,296	14,399
Income tax	64	142	110	223	1,653
<u>Net Income</u>	<u>612</u>	<u>763</u>	<u>722</u>	<u>1,073</u>	<u>12,746</u>
<u>Appropriation</u>					
Dividends /c	1	1	164	238	2,284
Reserves	512	631	630	826	6,576
Unappropriated retained earnings	99	131	(-72)	9	3,886
<u>Total</u>	<u>612</u>	<u>763</u>	<u>722</u>	<u>1,073</u>	<u>12,746</u>
<u>Financial Performance</u>					
<u>Percentage of Average Total Assets</u>					
1. Gross income	11.9	11.6	12.1	13.1	16.9
2. Financial expenses	8.0	7.7	8.6	9.4	11.1
3. Gross spread (1 - 2)	3.9	3.9	3.5	3.7	5.8
4. Administrative expenses	3.5	3.2	3.3	3.1	3.7
5. Provisions, taxes and others	0.2	0.5	0.1	0.5	1.1
6. Net income	0.2	0.2	0.1	0.1	1.0
<u>Net Income as % of</u>					
Average equity	6.3	5.0	3.3	3.6	23.7
Share capital	7.6	5.8	3.6	4.6	22.3
<u>Other Ratios</u>					
Income from loans as % of average loan portfolio	14.6	15.2	14.8	15.9	19.5
Cost of debt as % of average total borrowings	9.1	8.9	9.9	10.8	12.7
Interest spread	5.5	6.3	4.7	5.1	6.8
Dividend payout (%)	0.2	0.1	23.0	22.0	17.9
Book value as % of par	155	140	129	124	130
Interest cover /d	1.06	1.08	1.00	1.03	1.11
Debt service cover /e	1.18	1.15	1.13	1.12	1.22
Return on average total assets (%) /f	8.2	7.9	8.7	9.6	12.3

/a Write-offs in 1976 and 1977 amounted to W 605 million and W 226 million respectively.

/b Including losses on foreign exchange transactions.

/c The dividend pay-out policy was changed by MOF in 1978.

/d Net income before tax, provisions, interest and depreciation to interest charges.

/e Net income + noncash charges + interest charges + term loan collections to interest charges + repayments of term borrowings (excluding collection of term working capital loans and repayments of savings deposits).

/f Net income before tax and interest to average total assets.



## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Summarized Cash Flow Statements, 1976-1980  
(In W million)

	1976	1977	1978	1979	1980
<b>Sources</b>					
Operations					
Net income	612	763	722	1 073	12,746
Noncash charges	888	1,461	146	383	6,879
Subtotal	<u>1,500</u>	<u>2,224</u>	<u>868</u>	<u>1,456</u>	<u>19,625</u>
Issuance of shares for cash	5,000	5,000	7,000	7,000	30,000
Drawdown on:					
Foreign currency borrowings /a	13,560	20,820	48,117	24,220	68,819
Government borrowings	29	2,032	3,520	43	1,814
BOK	293,697	242,232	221,403	289,553	436,435
NIF	4,400	6,323	12,512	15,630	6,906
IRF	-	-	488	47	-
SMIPF	-	-	-	20,820	18,311
Subtotal	<u>311,686</u>	<u>271,407</u>	<u>286,040</u>	<u>350,313</u>	<u>532,285</u>
Collections:					
Foreign currency loans /a	4,303	6,149	8,281	14,862	27,481
Domestic currency equipment loans	11,632	10,235	14,885	15,110	24,671
Working capital loans	1,148,988	1,496,386	2,245,809	3,285,948	4,477,397
Subtotal	<u>1,164,923</u>	<u>1,512,770</u>	<u>2,268,975</u>	<u>3,315,920</u>	<u>4,529,549</u>
Increase in savings deposits	-5,030	18,685	35,361	67,404	-21,837
Increase in short-term deposits	43,181	85,590	129,099	134,103	172,097
Increase in current liabilities /b	13,680	9,334	38,059	30,977	78,414
Total Sources	<u>1,534,940</u>	<u>1,905,010</u>	<u>2,758,402</u>	<u>3,907,173</u>	<u>5,340,133</u>
<b>Uses</b>					
Additions to fixed assets /c	660	2,172	2,222	3,167	2,467
Disbursements:					
Foreign currency loans /a	13,777	21,618	51,112	30,605	82,252
Domestic currency equipment loans	18,755	21,663	42,638	65,139	61,257
Working capital loans	1,174,228	1,544,177	2,320,918	3,442,192	4,731,049
Subtotal	<u>1,206,760</u>	<u>1,587,458</u>	<u>2,414,668</u>	<u>3,537,936</u>	<u>4,874,558</u>
Repayment of borrowings:					
Foreign currency borrowings /a	4,998	23,563	8,069	12,939	23,974
BOK	291,318	225,288	226,589	264,865	396,642
Government of Korea	2,639	2,109	2,573	1,436	1,276
NIF	1,004	1,664	2,384	3,635	7,699
IRF	2,503	2,480	1,223	1,119	914
SMIPF	-	-	-	931	587
Subtotal	<u>302,462</u>	<u>255,104</u>	<u>240,838</u>	<u>284,925</u>	<u>431 092</u>
Increase in current assets (receivable and others)	429	4,162	3,099	5,533	10,308
Increase in short-term investments (securities)	4,374	8,650	19,353	34,074	21,327
Increase in cash	17,902	46,243	82,769	36,150	-14 400
Subtotal	<u>22,705</u>	<u>59,055</u>	<u>105,221</u>	<u>75,757</u>	<u>17,235</u>
Increase in other assets /d	1,572	994	2,306	5,201	14,004
Write-offs	605	226	146	23	539
Dividend payment	176	1	1	164	238
Total Uses	<u>1,534,940</u>	<u>1,905,010</u>	<u>2,765,402</u>	<u>3,907,173</u>	<u>5,340,133</u>

/a Foreign currency borrowings, collections, disbursements and repayments include KFX funds.

/b Taxes payable, due to correspondent banks and accrued interest.

/c Gross additions in 1976 and 1977 and net additions thereafter.

/d Lease deposits and receivables from foreclosure and properties acquired through foreclosure.

## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Collection Performance During the Period 1976 - Sept. 30, 1980  
(In won million)

	Total due during the year							Actual collections			Collection ratio		
	Overdues		Maturing during the year		Total due during the year						Principal	Interest	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Total						
<b>Collection Ratios</b>													
<b>Domestic Currency Equipment Loans</b>													
1976	606	188	11,605	4,098	12,211	4,286	16,497	11,632	4,023	15,655	95.3	93.9	94.9
1977	579	263	10,447	5,292	11,026	5,555	16,581	10,235	5,204	15,439	92.8	93.7	93.1
1978	791	351	15,361	7,652	16,152	8,003	24,155	14,884	7,553	22,437	94.4	94.4	92.9
1979	1,268	450	15,993	13,344	17,261	13,794	31,055	15,110	13,486	28,596	87.5	97.8	92.1
1980	2,151	308	17,592	16,814	19,743	17,122	36,865	17,163	16,731	33,894	86.9	97.7	91.9
<b>Foreign Currency Equipment Loans</b>													
1976	277	163	4,415	3,667	4,692	3,830	8,522	4,303	3,636	7,939	91.7	94.9	93.2
1977	389	194	5,931	4,620	6,320	4,814	11,134	6,149	4,687	10,836	97.3	97.4	97.3
1978	171	127	8,561	7,640	8,732	7,767	16,499	8,280	7,375	15,655	94.8	95.0	94.9
1979	452	392	15,839	11,396	16,291	11,788	28,079	14,862	11,471	26,333	91.2	97.3	93.8
1980	1,429	317	15,546	9,757	16,975	10,074	27,049	15,523	9,802	25,325	91.4	97.3	93.6
<b>Working Capital Loans</b>													
1976	4,064	1,673	1,149,070	23,862	1,153,134	25,535	1,178,669	1,148,988	23,463	1,172,451	99.6	91.9	99.5
1977	4,146	1,410	1,497,061	31,216	1,501,207	32,626	1,533,833	1,496,386	31,446	1,527,832	99.7	96.4	99.6
1978	4,821	1,180	2,244,900	41,387	2,249,721	42,567	2,292,288	2,245,809	41,742	2,287,551	99.8	98.1	99.8
1979	3,912	825	3,288,026	64,856	3,291,938	65,681	3,357,619	3,285,948	65,107	3,351,055	99.8	99.1	99.8
1980	5,990	574	3,215,058	94,217	3,221,048	94,791	3,315,839	3,204,879	92,839	3,297,718	99.5	97.9	99.5
<b>Total Loans</b>													
1976	4,947	2,024	1,165,090	31,627	1,170,037	33,651	1,203,688	1,164,923	31,122	1,196,045	99.6	92.5	99.4
1977	5,114	1,867	1,513,439	41,128	1,518,553	42,995	1,561,548	1,512,770	41,337	1,554,107	99.6	96.1	99.5
1978	5,783	1,658	2,268,823	56,679	2,274,606	58,337	2,332,943	2,268,974	56,670	2,325,644	99.8	97.1	99.7
1979	5,632	1,667	3,319,858	89,596	3,325,490	91,263	3,416,753	3,315,920	90,064	3,405,984	99.7	98.7	99.7
1980	9,570	1,199	3,248,196	120,788	3,257,766	121,987	3,379,753	3,237,565	119,372	3,356,937	99.4	97.9	99.3
<b>Status of Loan Portfolio</b>													
<b>Year ending December 31</b>													
	1976		1977		1978		1979		1980				
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
Principal outstanding	234,202	100.0	308,890	100.0	456,867	100.0	678,883	100.0	906,866	100.0			
Of which:													
In grace period /a	31,048	13.3	41,759	13.5	95,325	20.9	95,744	14.1	117,892	13.0			
Repaying regularly	195,931	83.6	261,348	84.6	355,910	77.9	573,569	84.5	768,773	84.8			
In arrears	7,223	3.1	5,783	1.9	5,632	1.2	9,570	1.4	20,201	2.2			
(Over 3 months)	(4,889)	(2.1)	(5,363)	(1.7)	(3,198)	(0.7)	(5,417)	(0.8)	(9,437)	(1.0)			

/a All working capital loans are considered as having no grace period.

AEP Projects Department  
March 1, 1981

## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Status of Loan Portfolio as of September 30, 1980 /a  
(Won in million)

	Total Outstanding loans			Arrears			As % of		Outstanding loans affected by arrears			
	No. of clients	Amount	%	Interest	Principal	Total	Total arrears	Total outstanding loans	No. of clients	Amount	Affected loans	Outstanding loans
<b>Equipment Loans</b>												
Projects under implementation	215	19,191	6.4	94	436	530	11.3	2.8	9	880	7.9	4.6
Projects in initial stage of operation /b	173	17,691	5.9	5	28	33	0.7	0.2	3	122	1.1	0.7
Projects in operation of which: /c	3,326	262,984	87.7	564	3,568	4,132	88.0	1.57	148	10,140	91.0	3.9
- With operational problems	(91)	(4,498)	(1.5)	(215)	(1,240)	(1,455)	(31.0)	(32.0)	(52)	(3,722)	(33.4)	(82.8)
- Problem-free	(3,235)	(258,486)	(86.2)	(349)	(2,328)	(2,677)	(57.0)	(1.0)	(96)	(6,418)	(57.6)	(2.5)
<b>Total</b>	<b>3,714</b>	<b>299,866</b>	<b>100.0</b>	<b>663</b>	<b>4,032</b>	<b>4,695</b>	<b>100.0</b>	<b>1.6</b>	<b>160</b>	<b>11,142</b>	<b>100.0</b>	<b>3.7</b>
<b>Working Capital Loans</b>												
Projects under implementation	-	-	-	-	-	-	-	-	-	-	-	-
Projects in initial stage of operation /b	287	4,249	0.7	5	53	58	0.3	-	5	53	0.3	1.3
Projects in operation of which: /c	16,743	602,750	99.3	1,947	16,116	18,063	99.7	3.0	477	16,116	99.7	2.7
- With operational problems	(146)	(2,428)	(0.4)	(916)	(3,051)	(3,967)	(21.9)	(163.4)	(142)	(3,051)	(19.2)	(0.5)
- Problem-free	(16,597)	(600,322)	(98.9)	(1,031)	(13,065)	(14,096)	(77.8)	(2.3)	(335)	(13,065)	(80.5)	(2.2)
<b>Total</b>	<b>17,030</b>	<b>606,999</b>	<b>100.0</b>	<b>1,952</b>	<b>16,169</b>	<b>18,121</b>	<b>100.0</b>	<b>3.0</b>	<b>482</b>	<b>16,169</b>	<b>100.0</b>	<b>2.7</b>
<b>Total Loans</b>												
Projects under implementation	215	19,191	2.1	94	436	530	2.3	2.8	9	880	3.2	4.6
Projects in initial stage of operation /b	460	21,940	2.4	10	81	91	0.4	0.4	5	175	0.7	0.8
Projects in operation of which: /c	20,069	865,734	95.5	2,511	19,684	22,195	97.3	2.6	625	26,256	96.1	3.0
- With operational problems	(237)	(6,926)	(0.8)	(1,131)	(4,291)	(5,422)	(23.8)	(78.3)	(194)	(6,773)	(24.8)	(97.8)
- Problem-free	(19,832)	(858,808)	(94.7)	(1,380)	(15,393)	(16,773)	(73.5)	(2.0)	(431)	(19,483)	(71.3)	(2.3)
<b>Total</b>	<b>20,744</b>	<b>906,865</b>	<b>100.0</b>	<b>2,615</b>	<b>20,201</b>	<b>22,816</b>	<b>100.0</b>	<b>2.5</b>	<b>642</b>	<b>27,311</b>	<b>100.0</b>	<b>3.0</b>

/a Double-counting of clients is avoided by (i) considering borrowers of domestic currency equipment and/or working capital loans with foreign exchange loans as clients of foreign currency loans only, and (ii) considering borrowers of domestic currency equipment and working capital loans as clients of domestic currency equipment loans only.

/b Projects which have not yet completed their first year of operation.

/c Projects which have been operating for more than one year.

## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Net Resource Position as of December 31, 1976-79 and as of Sept. 30, 1980  
(In won million)

As of December 31,	1976	1977	1978	1979	As of Sept. 30, 1980 /b
<b>1. Domestic Currency</b>					
<b>A. Long-Term</b>					
Equity: Paid-in capital	8,060	13,060	20,060	27,060	42,060
Reserves and retained earnings	4,433	5,196	5,754	6,589	58,574
<b>Total Equity</b>	<b>12,493</b>	<b>18,256</b>	<b>25,814</b>	<b>33,649</b>	<b>100,634</b>
Borrowings from Government	10,842	10,766	11,713	10,320	9,547
Borrowings from NIF and IRF	14,654	16,832	26,226	37,149	34,495
Borrowings from SMIPF	-	-	-	19,889	24,525
Savings deposit (over one year)	64,151	82,836	118,196	185,600	192,821
<b>Total Long-Term Domestic Currency Resources</b>	<b>102,140</b>	<b>128,690</b>	<b>181,949</b>	<b>286,607</b>	<b>362,022</b>
Less: Domestic currency outstanding term loans	66,829	91,146	128,804	187,194	270,064
Investment in fixed assets (net)	3,407	5,344	7,566	10,733	12,532
Other long-term assets /a	8,559	9,553	11,859	17,060	25,830
BOK's reserve requirement against term deposits	10,906	13,871	21,921	35,129	17,983
Investment in securities (National Investment Bonds)	2,292	4,676	12,231	21,915	22,094
<b>Subtotal</b>	<b>91,993</b>	<b>124,590</b>	<b>182,381</b>	<b>272,031</b>	<b>348,503</b>
Resources available for further disbursement	10,147	4,100	-432	14,576	13,519
Less: Undisbursed commitments	-	-	-	-	-
Resources available for further commitment	10,147	4,100	-432	14,576	13,519
<b>B. Short-Term</b>					
Demand deposits	138,751	224,341	117,028	158,359	158,062
Savings deposits (less than one year)			236,412	329,184	413,684
Short-term borrowings from BOK	22,050	25,606	20,420	45,108	72,156
Other resources			8,294	18,408	33,036
<b>Total Short-Term Domestic Currency Resources</b>	<b>160,801</b>	<b>249,947</b>	<b>382,154</b>	<b>551,059</b>	<b>676,938</b>
Less: Short-term loans outstanding	124,510	159,412	226,900	374,783	474,818
BOK's reserve requirement against deposits	28,011	43,049	78,546	103,057	59,608
Investment in securities (National Investment Bonds)	4,958	12,663	24,465	38,868	47,400
<b>Subtotal</b>	<b>157,479</b>	<b>215,124</b>	<b>329,911</b>	<b>516,708</b>	<b>581,826</b>
Resources available for further commitment	3,322	34,823	52,243	34,351	95,112
<b>C. Total Domestic Currency Resources</b>					
Total long-term resources	102,140	128,690	181,949	286,607	362,022
Total short-term resources	160,801	249,947	382,154	551,059	676,938
<b>Total Resources</b>	<b>262,941</b>	<b>378,637</b>	<b>564,103</b>	<b>837,666</b>	<b>1,038,960</b>
Less: Outstanding loans	191,339	250,558	355,704	561,977	744,882
Investment in fixed assets (net)	3,407	5,344	7,566	10,733	12,532
BOK's reserve requirement	38,917	56,920	100,467	138,186	77,591
Other long-term assets /a	8,559	9,553	11,859	17,060	25,830
Investment in securities (National Investment Bonds)	7,250	17,339	36,696	60,783	69,494
<b>Subtotal</b>	<b>249,472</b>	<b>339,714</b>	<b>512,292</b>	<b>788,739</b>	<b>930,329</b>
Resources available for further disbursement	13,469	38,923	51,811	48,927	108,631
Less: Undisbursed loan commitments	-	-	-	-	-
Resources available for further commitment	13,469	38,923	51,811	48,927	108,631
<b>2. Foreign Currency /c</b>					
Total foreign currency resources	83,330	93,569	128,568	189,744	251,004
Less: Foreign currency loans disbursed	56,819	72,918	107,963	143,554	219,020
Resources available for further disbursement	26,511	20,651	20,605	46,190	31,984
Less: Undisbursed loan commitments	6,430	12,663	12,799	22,041	18,551
Net resources available for further commitment	20,081	7,988	7,806	24,149	13,433
Less: Uncommitted approvals	1,066	3,732	990	2,516	5,123
Net resources available for approvals	19,015	4,256	6,816	21,633	8,310

/a Long-term lease deposits, properties acquired through foreclosures and receivables from the sale of such properties.

/b Preliminary figures.

/c Based on the following foreign exchange rates: 1978 and 1979 US\$1 = W 485, 1980 US\$1 = W 625.

## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

## Long-Term Borrowings as of September 30, 1980

	Initial amount of loan	Loan /a amount	Ap- provals	Commit- ments	Disburse- ments	Repay- ments	Out- standing	Interest rate Borrowing Relending		Maximum Term (years) /b For For sub- SMIB borrowers	Year of Loan Agree- ment	Maximum amount /c on subloan limit/c -----(US\$'000)-----	Free	Country of origin of purchase	
Foreign Currency															
Borrowings															
USAID: (US\$'000)	8,000	7,018	6,921	6,921	7,018	6,807	211	5.0	8.0	15(3)	15(3)	1966/67	200	100	USA
OECD: (US\$'000)															
1st loan	15,000	14,818	14,818	14,818	14,818	4,210	608	7.0	8.0	13(3)	13(3)	1966	300	300	Japan
2nd loan	7,414	7,414	7,414	7,414	7,414	6,563	851	7.0	8.0	13(3)	13(3)	1967	200	200	Japan
Subtotal	22,414	22,232	22,232	22,232	22,232	10,773	1,459								
KFW: (DM'000)															
1st loan	15,000	15,000	15,000	15,000	15,000	15,000	-	5.0	8.0	6(-)	6(-)	1965	DM 1,200 thousand	-	West Germany
2nd loan	8,000	8,000	8,000	8,000	8,000	2,889	5,111	7.0	9.0	30(10)	15(3)	1973	DM 2,000 thousand	-	Worldwide
Subtotal	23,000	23,000	23,000	23,000	23,000	17,889	5,111								
ADB: (US\$'000)															
1st loan	10,000	9,958	9,958	9,958	9,958	7,223	2,735	6.875	10.0	15(3)	15(3)	1969	300	150	ADB member countries
2nd loan	15,000	14,978	14,978	14,978	14,978	8,417	6,561	7.5-9.1	9.5-11.1	15(3)	15(3)	1971	500	150	ADB member countries
3rd loan	30,000	29,653	29,653	29,653	29,653	11,511	18,142	7.5-9.1	9.5-11.1	15(3)	15(3)	1973	1,000	300	ADB member countries & Luxembourg
4th loan	30,000	29,964	29,964	29,964	29,964	3,869	26,095	8.9	10.9	15(3)	15(3)	1976	1,000	500	ADB member countries & Luxembourg
5th loan	40,000	40,000	38,140	36,448	32,457	148	32,309	7.7	9.9	15(3)	15(3)	1978	1,500	500	ADB member countries
Subtotal	125,000	124,553	122,693	121,001	117,010	31,168	85,842								
EXIM Bank of Japan (In ¥ million)	5,400	5,398	5,398	5,398	5,398	3,983	1,415	6.25	8.25	13(3)	13(3)	1971	¥ 180 mln.	¥ 180 mln.	Japan
IBRD: (US\$'000)															
1st loan	30,000	29,857	29,857	29,857	29,857	7,988	21,869	8.5	10.5	15(3)	15(3)	1975	1,000	500	IBRD member countries & Switzerland
2nd loan	55,000	55,000	54,873	54,533	53,177	6,761	46,416	7.9	9.9	15(3)	15(3)	1978	1,500	500	IBRD member countries & Switzerland
3rd loan	60,000	60,000	48,825	42,625	23,499	33	23,466	7.9	9.9	15(3)	15(3)	1979	1,500	500	IBRD member countries & Switzerland
Subtotal	145,000	144,857	133,555	127,015	106,533	14,782	91,751								
Korea Foreign Exchange (KFX)															
(US\$'000)	75,339	75,339	75,339	75,339	70,033	34,056	35,977	LIBOR+0.5%	LIBOR+1% -LIBOR+1.25%	10(4)	10(4)	1977	500	500	Worldwide
Total Foreign Currency															
Borrowings															
US\$	375,753	373,999	360,704	352,508	322,826	107,586	215,240								
DM	23,000	23,000	23,000	23,000	23,000	17,889	5,111								
¥	5,400	5,398	5,398	5,398	5,398	3,983	1,415								
Domestic Currency (In W million)															
Gov't of Korea															
Counterpart Fund							2,147	2	21	25					1963-75
Special Account							7,178	19.5	21	10					1962-74
Local Financing Fund							222	11.5-13	21	5					1965-71
Subtotal							9,547								
National Investment Fund							33,381	19.5-21.5	21-23	3 & 8/c	3 & 8/c				
Industrial Rationalization Fund							1,114	19.5-21.5	21-23	3 & 8/c	3 & 8/c				
SMI Promotion Fund							24,525	12-18	14-20	2 & 8	2 & 8				
Deposits (over one-year maturity)							192,821	24	23.5-24	1 & 6	1 & 6				
Total Domestic Currency															
Borrowing															
							261,388								

/a Net of cancellations.

/b Figures in parentheses represent grace periods.

/c Three years for working capital loans and eight years for equipment loans.

AEP Projects Department  
March 1, 1981

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Projected Operations, 1981-85  
(In won million)

	Actual 1980	1981	1982	Projected 1983	1984	1985
<u>Approvals</u>						
Equipment loans						
Foreign currency	22,165	42,835	66,173	71,831	77,103	82,375
Domestic currency	61,257	127,900	130,127	153,969	182,597	216,225
<u>Total Equipment Loans</u>	<u>83,422</u>	<u>170,735</u>	<u>196,300</u>	<u>225,800</u>	<u>259,700</u>	<u>298,600</u>
Working capital loans /a (net increase)	253,652	216,703	284,148	346,082	374,635	483,847
<u>Total Loan Approvals</u>	<u>337,074</u>	<u>387,438</u>	<u>480,448</u>	<u>571,882</u>	<u>634,335</u>	<u>782,447</u>
<u>Commitments</u>						
Equipment loans						
Foreign currency	24,175	39,676	67,820	71,172	75,785	81,057
Domestic currency	61,257	127,900	130,127	153,969	182,597	216,225
<u>Total Equipment Loans</u>	<u>85,432</u>	<u>167,576</u>	<u>197,947</u>	<u>225,141</u>	<u>258,382</u>	<u>297,282</u>
Working capital loans /a (net increase)	253,652	216,703	284,148	346,082	374,635	483,847
<u>Total Loan Commitments</u>	<u>339,084</u>	<u>384,279</u>	<u>482,095</u>	<u>571,223</u>	<u>633,017</u>	<u>781,129</u>
<u>Disbursements</u>						
Equipment loans						
Foreign currency	82,252	46,477	65,223	71,172	75,785	81,057
Domestic currency	61,257	127,900	130,127	153,969	182,597	216,225
<u>Total Equipment Loans</u>	<u>143,509</u>	<u>174,377</u>	<u>195,350</u>	<u>225,141</u>	<u>258,382</u>	<u>297,282</u>
Working capital loans /a (net increase)	253,652	216,703	284,148	346,082	374,635	483,847
<u>Total Loan Disbursements</u>	<u>397,161</u>	<u>391,080</u>	<u>479,498</u>	<u>571,223</u>	<u>633,017</u>	<u>781,129</u>
Guarantees issued /b	108,530	130,236	156,283	187,540	225,048	270,057

/a On a gross basis, working capital loans are projected by applying revolving rates to the average balance for each year; the revolving rates are 9.5 for short-term working capital loans and 0.9 for medium-term working capital loans in 1980. Net increase of working capital loans for each year are as follows:

	1981	1982	1983	1984	1985
Disbursement					
during the year	6,302,147	8,270,846	10,812,271	13,726,579	17,253,376
Less: Collections					
during the year	6,085,444	7,986,698	10,466,189	13,351,944	16,769,529
<u>Net Increase</u>	<u>216,703</u>	<u>284,148</u>	<u>346,082</u>	<u>374,635</u>	<u>483,847</u>

/b Annual increase rate of 20% in foreign exchange business is applied in estimating guarantees issued.

## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Projected Balance Sheets, 1981-85  
(In won million)

	1981	1982	1983	1984	1985
<b>Assets</b>					
<u>Current Assets</u>					
Cash and bank deposits	310,626	406,345	523,417	665,656	834,810
Investment in securities	110,952	136,094	168,126	208,816	260,491
Short-term working capital loans	706,098	931,135	1,216,771	1,526,817	1,921,718
Other current assets	30,244	37,638	46,346	56,305	68,539
<u>Total Current Assets</u>	<u>1,157,920</u>	<u>1,511,212</u>	<u>1,954,660</u>	<u>2,457,594</u>	<u>3,085,558</u>
<u>Term Portfolio</u>					
Working capital loans	203,595	262,706	323,152	387,741	476,687
Domestic currency equipment loans	255,280	334,351	421,450	519,757	632,031
Foreign currency loans	185,703	208,046	235,026	261,700	288,594
<u>Total Term Loans</u>	<u>644,578</u>	<u>505,103</u>	<u>979,628</u>	<u>1,169,198</u>	<u>1,397,312</u>
(Less: Provisions)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)
<u>Net Portfolio</u>	<u>637,578</u>	<u>798,103</u>	<u>972,628</u>	<u>1,162,198</u>	<u>1,390,312</u>
Property and equipment (net)	27,471	37,145	46,268	54,891	63,404
Other assets	34,510	39,768	45,099	51,007	57,827
Long-term lease deposits	29,277	33,083	36,723	40,762	45,246
Intangible assets	135	135	135	135	135
Receivable from sale of foreclosed properties	5,098	6,550	8,241	10,110	12,446
<u>Total Long-Term Assets</u>	<u>699,559</u>	<u>875,016</u>	<u>1,063,995</u>	<u>1,268,096</u>	<u>1,511,543</u>
<u>Total Assets</u>	<u>1,857,479</u>	<u>2,386,228</u>	<u>3,018,655</u>	<u>3,725,690</u>	<u>4,597,101</u>
<b>Liabilities</b>					
<u>Current Liabilities</u>					
Short-term deposits	730,383	901,000	1,144,440	1,453,160	1,845,520
Borrowings from BOK	147,733	219,993	303,093	398,653	508,543
Dividend payable	4,924	7,712	10,500	12,000	12,000
Tax payable	1,663	3,801	5,119	6,028	6,165
Due to correspondent banks	40,301	48,361	58,033	69,640	83,568
Deposits in foreign currency	69,805	84,739	104,627	126,077	149,517
(of which KFX fund borrowings)	(16,904)	(21,258)	(28,450)	(34,664)	(39,822)
Accrued interest and others	112,175	142,463	180,928	229,778	291,818
<u>Total Current Liabilities</u>	<u>1,106,984</u>	<u>1,408,069</u>	<u>1,806,740</u>	<u>2,295,336</u>	<u>2,897,131</u>
<u>Long-Term Liabilities</u>					
Savings deposits	313,020	424,000	538,560	683,840	868,480
Borrowings from GOK	14,958	11,900	7,392	1,261	571
Borrowings from NIF	50,213	67,107	88,820	114,089	145,099
Borrowings from IRF	457	58	-	-	-
Borrowings from SMIPF	55,413	73,104	78,163	81,869	84,849
Borrowings from RRF	1,000	2,000	2,800	3,400	3,800
Foreign currency borrowings	154,922	175,386	195,748	215,983	237,004
Allowance for retirements	28,500	35,804	43,108	50,412	57,716
<u>Total Long-Term Liabilities</u>	<u>618,483</u>	<u>789,359</u>	<u>954,591</u>	<u>1,150,855</u>	<u>1,397,519</u>
<u>Equity</u>					
Paid-in share capital	107,060	150,000	200,000	200,000	200,000
Reserve and retained earnings	24,952	38,800	57,324	79,499	102,451
<u>Total Equity</u>	<u>132,012</u>	<u>188,800</u>	<u>257,324</u>	<u>279,499</u>	<u>302,451</u>
<u>Total Liabilities and Equity</u>	<u>1,857,479</u>	<u>2,386,228</u>	<u>3,018,655</u>	<u>3,725,690</u>	<u>4,597,101</u>
<b>Outstanding Guarantees</b>					
Short-term guarantees	22,739	27,287	32,744	39,293	47,151
Long-term guarantees	982	1,178	1,414	1,696	2,035
<u>Total Guarantees</u>	<u>23,721</u>	<u>28,465</u>	<u>34,158</u>	<u>40,989</u>	<u>49,186</u>
<b>Ratios</b>					
/a					
Total debt/equity	13.3:1	11.8:1	10.9:1	12.5:1	14.4:1
Long-term debt/equity /b	4.2:1	3.8:1	3.3:1	3.7:1	4.1:1
Current ratio	1.05:1	1.07:1	1.08:1	1.07:1	1.07:1
Reserves and provisions as % of total portfolio	2.4	2.6	2.9	3.2	3.3

/a Including outstanding guarantees.

/b Including guarantees and net of reserve requirements.

## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Projected Income Statements, 1981-85  
(In won million)

	1981	1982	1983	1984	1985
<u>Income</u>					
Interest on loans	214,312	280,819	360,529	451,562	558,404
Interest on securities	19,802	24,087	29,661	36,752	45,758
Guarantee fees, commissions, etc.	13,436	16,385	19,909	24,067	29,035
<u>Total Income</u>	<u>247,550</u>	<u>321,291</u>	<u>410,099</u>	<u>512,381</u>	<u>633,197</u>
<u>Expenses</u>					
Financial expenses	171,992	221,182	283,698	357,577	448,816
Administrative and general expenses	47,982	60,185	75,940	96,245	122,485
Provision for doubtful accounts	7,000	7,000	7,000	7,000	7,000
Other expenses	6,088	7,563	9,318	11,356	13,779
<u>Total Expenses</u>	<u>233,062</u>	<u>295,930</u>	<u>375,956</u>	<u>472,178</u>	<u>592,080</u>
Income before tax	14,488	25,361	34,143	40,203	41,117
Income tax	1,663	3,801	5,119	6,028	6,165
<u>Net Income</u>	<u>12,825</u>	<u>21,560</u>	<u>29,024</u>	<u>34,175</u>	<u>34,952</u>
<u>Appropriation</u>					
Dividends	4,924	7,712	10,500	12,000	12,000
Reserve and retained earnings	7,901	13,848	18,524	22,175	22,952
<u>Financial Performance</u>					
<u>Percentage of Average Total Assets</u>					
1. Gross income	15.1	15.1	15.2	15.2	15.2
2. Financial expenses	10.5	10.4	10.5	10.5	10.8
3. Gross spread (1 - 2)	4.6	4.7	4.7	4.6	4.4
4. Administrative expenses	2.9	2.8	2.8	2.9	2.9
5. Provisions	0.4	0.3	0.3	0.2	0.2
6. Income tax	0.10	0.18	0.19	0.18	0.15
7. Net income	0.8	1.0	1.1	1.0	0.8
<u>Net Profit as % of</u>					
Average equity	12.4	13.4	13.0	12.7	12.0
Share capital	12.0	14.4	14.5	17.1	17.5
(Average share capital)	(15.6)	(16.8)	(16.6)	(17.5)	(17.5)
<u>Other Ratios</u>					
Income from loans as % of average loan portfolio	18.1	18.2	18.3	18.5	18.6
Interest on debts as % of average total debts	12.3	11.3	11.4	11.5	11.6
Interest spread	5.8	6.9	6.9	7.0	7.0
Cash dividend as % of par value	6.0	6.0	6.0	6.0	6.0
Book value as % of par value	123.3	125.9	128.7	139.7	151.2
Interest cover ratio /a	1.09	1.12	1.13	1.12	1.10
Debt service cover ratio /b	1.8	1.9	1.9	1.9	1.9
Return on total assets (%) /c	10.0	10.3	10.5	10.7	10.7
Return on portfolio (%) /d	16.0	16.3	16.5	16.8	16.9

/a Net earnings before interest, tax and depreciation to interest charges.

/b Profit after tax + interest charges + noncash charges + term loan collections to interest charges + repayments of term borrowings.

/c Net income before tax + interest expenses to total assets.

/d Total interest revenue to average outstanding of loans and securities.



## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Projected Cash Flow Statements, 1981-85  
(In won million)

	1981	1982	1983	1984	1985
<b>Sources</b>					
Operations					
Net income	12,825	21,560	29,024	34,175	34,952
Noncash charges (depreciation, provisions)	7,852	8,652	9,451	10,138	10,733
Subtotal	<u>20,677</u>	<u>30,212</u>	<u>38,475</u>	<u>44,313</u>	<u>45,685</u>
Issuance of shares for cash	50,000	42,940	50,000	-	-
Drawdown on:					
Foreign currency borrowings /a	46,320	62,258	67,218	71,831	77,103
Government borrowings	5,700	-	-	-	-
BOK	772,424	1,194,125	1,678,393	2,236,443	2,878,052
IF	23,000	27,600	33,120	39,740	47,690
SMIPF	34,100	34,100	34,100	34,100	34,100
ERF	1,000	1,000	1,000	1,000	1,000
Subtotal	<u>882,544</u>	<u>1,319,033</u>	<u>1,813,831</u>	<u>2,383,114</u>	<u>3,037,945</u>
Collection:					
Foreign currency loans	32,451	42,880	44,192	49,111	54,163
Domestic currency equipment loans	31,845	51,056	66,870	84,290	103,951
Working capital loans	6,085,444	7,986,698	10,466,189	13,351,944	16,769,529
(of which long-term working capital loans)	(158,840)	(209,836)	(263,636)	(319,901)	(388,993)
Subtotal	<u>6,149,740</u>	<u>8,080,634</u>	<u>10,577,251</u>	<u>13,485,345</u>	<u>16,927,643</u>
Increase in long-term deposits	149,257	110,980	114,560	145,280	184,640
Increase in short-term deposits	70,743	170,617	243,440	308,720	392,360
Increase in deposits in foreign currency /b	8,817	10,580	12,696	15,236	18,282
Increase in other current liabilities /c	33,305	43,274	52,243	62,866	76,105
Increase in allowance for retirements	7,304	7,304	7,304	7,304	7,304
Total Sources	<u>7,372,387</u>	<u>9,815,624</u>	<u>12,909,800</u>	<u>16,452,178</u>	<u>20,689,964</u>
<b>Uses</b>					
Addition to fixed assets (gross)	11,097	11,326	11,574	11,761	12,246
Disbursements					
Foreign currency loans /a	46,477	65,223	71,172	75,785	81,057
Domestic currency equipment loans	127,900	130,127	153,969	182,597	216,225
Working capital loans	6,302,147	8,270,846	10,812,271	13,726,579	17,253,376
Subtotal	<u>6,476,524</u>	<u>8,466,196</u>	<u>11,037,412</u>	<u>13,984,961</u>	<u>17,550,658</u>
Repayments of borrowings:					
Foreign currency borrowings	28,610	37,440	39,664	45,382	50,924
GOK	1,600	3,058	4,508	6,130	691
BOK	709,592	1,121,865	1,595,293	2,140,883	2,768,162
NIF	7,300	10,706	11,407	14,471	16,680
IRF	472	399	58	-	-
SMIPF	16,300	16,409	29,041	30,394	31,120
ERF	-	-	200	400	600
Subtotal	<u>763,874</u>	<u>1,189,877</u>	<u>1,680,171</u>	<u>2,237,660</u>	<u>2,868,177</u>
Increase in other current assets	6,230	7,394	8,708	9,959	12,234
Increase in short-term investments	18,811	25,142	32,032	40,690	51,675
Increase in cash	76,455	95,719	117,072	142,239	169,154
Subtotal	<u>101,496</u>	<u>128,255</u>	<u>157,812</u>	<u>192,888</u>	<u>233,063</u>
Increase in other long-term assets /d	7,472	5,258	5,331	5,908	6,820
Write-offs	7,000	7,000	7,000	7,000	7,000
Dividend payments	4,924	7,712	10,500	12,000	12,000
Total Uses	<u>7,372,387</u>	<u>9,815,624</u>	<u>12,909,800</u>	<u>16,452,178</u>	<u>20,689,964</u>

/a Based upon the foreign exchange rate of US\$1 = W 659.

/b Exclusive of KFX fund borrowings.

/c Dividend payable, taxes payable, due to correspondent banks, accrued interest and others.

/d Long-term lease deposits, receivable from sale of foreclosed properties and others.

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THE SMALL AND MEDIUM INDUSTRY BANK

Resource Position and Requirements, 1981-85

	1981	1982	1983	1984	1985
<u>Domestic Currency (Won billion)</u>					
<u>Long-Term Resources</u>					
Uncommitted resources	-44.0	40.6	90.7	143.1	161.8
Cash generated from operations	20.7	30.2	38.5	44.3	45.7
Share capital increase	50.0	42.9	50.0	-	-
Government borrowings	5.7	-	-	-	-
National Investment Fund	23.0	27.6	33.1	39.7	47.7
SMI Promotion Fund	34.1	34.1	34.1	34.1	34.1
Energy rationalization fund	1.0	1.0	1.0	1.0	1.0
Net won term loan collection /a	6.2	20.5	21.7	32.9	54.9
Net increase in long-term deposits /b	126.0	83.0	88.4	113.9	144.7
Subtotal	<u>222.7</u>	<u>279.9</u>	<u>357.5</u>	<u>409.0</u>	<u>489.9</u>
Net commitment of equipment loans	127.9	130.1	154.0	182.6	216.2
Net commitment of long-term working capital loans	54.2	59.1	60.4	64.6	88.9
Uncommitted balance at year-end	40.6	90.7	143.1	161.8	184.8
<u>Short-Term Resources</u>					
Uncommitted resources	73.8	25.2	15.2	1.3	36.8
Borrowing from BOK (net)	62.8	72.3	83.1	95.6	109.9
Net increase in short-term deposits /b	51.1	142.7	188.6	249.9	317.6
Subtotal	<u>187.7</u>	<u>240.2</u>	<u>286.9</u>	<u>346.8</u>	<u>464.3</u>
Net commitment of short-term working capital loans	162.5	225.0	285.6	310.0	394.9
Uncommitted balance at year-end	25.2	15.2	1.3	36.8	69.4
<u>Foreign Currency (US\$ million)</u>					
Uncommitted resources	57.1	58.6	54.0	46.0	51.0
KFW	1.7	8.3	-	-	-
IBRD	60.0	-	-	-	-
Unidentified official sources	-	60.0	70.0	90.0	90.0
KFX	-	30.0	30.0	30.0	30.0
Subtotal	<u>118.8</u>	<u>156.9</u>	<u>154.0</u>	<u>166.0</u>	<u>171.0</u>
Net commitments	60.2	102.9	108.0	115.0	123.0
Uncommitted balance at year-end	58.6	54.0	46.0	51.0	48.0

/a Net of repayments of long-term domestic currency borrowings.

/b Net of BOK reserve requirements and subscription to NIF debentures.

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THE SMALL AND MEDIUM INDUSTRY BANK

Estimated Commitments and Disbursements of Proposed Bank Loan /a

	<u>Commitments</u>		<u>Disbursements</u>	
	<u>Amount</u>	<u>% /b</u>	<u>Amount</u>	<u>% /b</u>
<u>FY82</u>				
July-September '81	0.5	0.8		
October - December '81	3.0	5.8	2.0	3.3
January - March '82	5.5	15.0	4.0	10.0
April-June '82	7.0	26.7	4.5	17.5
Subtotal	<u>16.0</u>	<u>26.7</u>	<u>10.5</u>	<u>17.5</u>
<u>FY83</u>				
July-September '82	7.0	38.3	5.5	26.7
October-December '82	8.5	52.5	6.0	36.7
January - March '83	8.5	66.7	7.0	48.3
April-June '83	8.0	80.0	8.0	61.7
Subtotal	<u>32.0</u>	<u>80.0</u>	<u>26.5</u>	<u>61.7</u>
<u>FY84</u>				
July-September '83	6.0	90.0	7.0	73.3
October-December '83	6.0	100.0	5.0	81.7
January-March '84	-		4.0	88.4
April-June '84	-		3.0	93.3
Subtotal	<u>12.0</u>	<u>100.0</u>	<u>19.0</u>	<u>93.3</u>
<u>FY85</u>				
July-Sepember '84			2.0	96.7
October-December -84			1.0	98.3
January-March '85			0.5	99.2
April-June '85			0.5	100.0
Subtotal			<u>4.0</u>	<u>100.0</u>
<u>Total</u>	<u>60.0</u>	<u>100.0</u>	<u>60.0</u>	<u>100.0</u>

/a Assuming loan would become effective during first quarter of FY82.

/b Percentages are cumulative.

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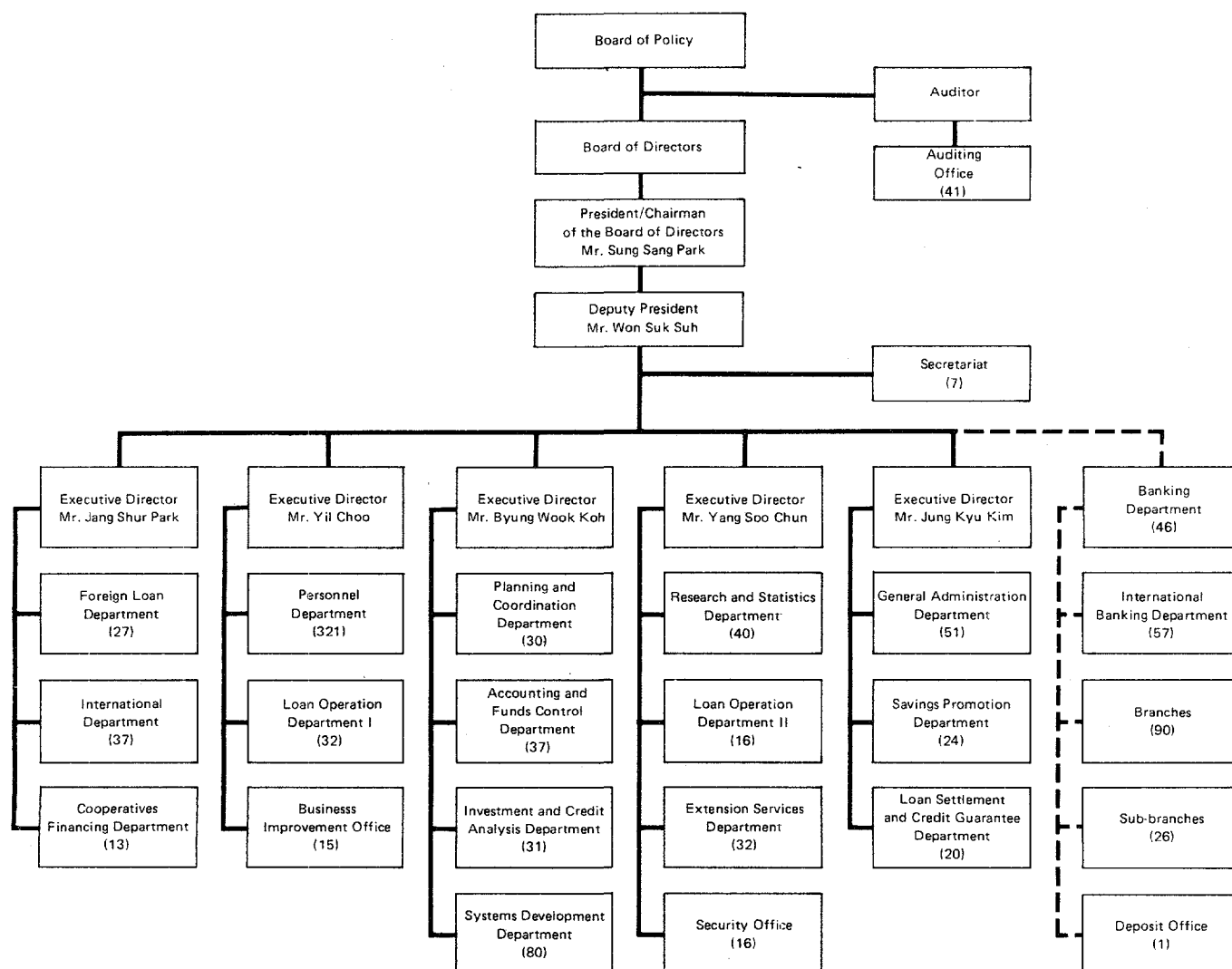
THE SMALL AND MEDIUM INDUSTRY BANK

Selected Documents and Data Available in the Project File

Selected Reports and Studies on the SMI Sector

- A-1 Major Statistics of Small and Medium Industries, 1980,  
Small and Medium Industry Promotion Corporation (SMIPC)
- A-2 Promotional Measures for the SMI Sector, Korea Federation of  
Small Businesses (KFSB)
- A-3 Directory of SMI Designated by the Ministry of Commerce and  
Industry, SMIPC
- A-4 Promotional Plan for SMI Sector, KFSB
- A-5 1981 National Policy for Promotion of SMI, Ministry of Commerce  
and Industry (MCI)
- A-6 Progress Report and Budget Proposals for 1981, SMIPC
- A-7 1981 Business Plan, SMIPC
- A-8 Financial Statements Analysis for 1978, Bank of Korea
- A-9 Preliminary Development Plan for SMI for 1982-86 (Excerpt),  
Planning Team for SMI
- A-10 National Wealth Survey of Korea, Volumes 1, 3 and 4, Economic  
Planning Board
- A-11 Study on Small Scale Industries, Technical Assistance Project to  
Republic of Korea, Volumes 1 and 2, International Development  
Center of Japan, November 1979
- A-12 Operations of Extension Service Programs for SMI in Korea
- B-1 SMIB's 1981 Staff Training Program

THE SMALL AND MEDIUM INDUSTRY BANK  
Organization Chart as of September 30, 1980



NOTES:

1. Total staff at September 30, 1980: Head Office 1,259, Branches 3,556 Total 4,815
2. Figures in parentheses indicate the number of professional staff (2,945)
3. Staff of Personnel Department includes those on sick leave and absent leave (280)
4. The two Banking Departments and the Branches report through the Loan Operation Departments.